

THE IMPORTANCE OF FINANCIAL LITERACY AMONG COLLEGE STUDENTS

HEARING BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED SEVENTH CONGRESS SECOND SESSION ON

THE ADEQUACY OF THE LEVEL OF FINANCIAL LITERACY AND EDUCATION AMONG COLLEGE STUDENTS; THE CONSEQUENCES OF A FINANCIALLY UNDEREDUCATED STUDENT BODY; THE ROLE THAT COLLEGES AND UNIVERSITIES CAN PLAY IN PROMOTING FINANCIAL EDUCATION AMONG THEIR STUDENT BODY; THE ABILITY AND EFFICACY OF A COLLEGE OR UNIVERSITIES TO ESTABLISH LIMITS ON SOLICITATION OF ITS STUDENTS; THE APPROPRIATENESS OF CERTAIN MARKETING TECHNIQUES ON COLLEGE CAMPUSES; AND RECOMMENDATIONS TO REDUCE THE NUMBER OF STUDENTS WHO ACCUMULATE EXCESS CREDIT CARD DEBT

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THURSDAY, SEPTEMBER 5, 2002

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:10 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. The hearing will come to order.

Today, the Committee on Banking, Housing, and Urban Affairs returns to the issue of financial literacy. This hearing, which focuses on college students, is another in our ongoing series. We first began last February, when we held two hearings and heard from a number of distinguished witnesses—including the Secretary of the Treasury, Chairman of the Federal Reserve Board, and the Chairman of the Securities and Exchange Commission and many more—all of whom called for increased financial education and awareness.

Following up on some of the specific topics raised at those initial hearings, we held two subsequent hearings, each exploring an issue that had been previously touched upon: One, the financial literacy of the unbanked, those who lack the benefits access to the mainstream financial institutions provides, of whom, of course, there are a significant number across the country; and two, the financial literacy of immigrants and the immigrant community, many of whom send money back to their family in their country of origin, and often pay exorbitant fees to do so. In fact, the President of Mexico, in a meeting with President Bush, placed that issue high on the agenda for discussion, in the accurate perception that if these fees were more realistic, the amount of, in effect, private economic assistance coming into Mexico would significantly increase. Today, we will focus on the importance of financial literacy among college students, specifically with regard to the use—and possible misuse—of credit cards.

My colleague, Senator Dodd, is to be commended for his leadership on this issue. He introduced legislation, S. 891, the Underage Consumer Credit Protection Act of 2001, that seeks to protect persons under age 21 from creating serious financial problems through the misuse of credit cards. Senators Corzine, Akaka, Stabenow, Schumer, and Enzi have also been active on these issues of financial literacy. In fact, Senators Corzine and Akaka spearheaded the

successful effort to attach language to the recently passed education bill which will enhance the ability of primary schools across the country to teach financial literacy to their students.

Now the timing of this hearing is not accidental. This month, more than 13 million young people seeking a post-secondary education will go “back to school,” where many of them will be faced with making significant personal financial decisions, often for the first time in their lives. This hearing is intended to serve as a signal to these young people who may be eager to have access to credit without fully understanding the responsibilities that credit brings, and also to send the message to those who are eager, perhaps too eager, to make that credit easily available.

The responsible use of credit is essential to the efficient functioning of our economy, but it is increasingly clear that many young people are ill-prepared to handle credit responsibly. President Patrick Swygert of Howard University, testifying on behalf of the Historically Black Colleges and Universities, raised this point at our February hearings. He observed that: “If used responsibly, credit cards allow students to build up credit histories that facilitate increased access to credit in the future.” He warned, however, that: “If college students have not learned financial management skills in their secondary education, or from their parents, and if they misuse their credit cards or mismanage their credit card debt, the disadvantages far outweigh any supposed advantages.”

For many Americans, college is the time when they first enter the financial system. Unfortunately, studies show that most college students lack the financial knowledge necessary for a smooth entry. Americans for Consumer Education and Competition, a non-profit institution, in the year 2000, reported that 82 percent of high school seniors failed a 13-question personal financial quiz. Eighty-two percent.

The situation is not improving. The Jump\$tart Coalition, which promotes financial literacy efforts at the K through 12 level, released a study this year that found that: “High school seniors know even less about credit cards, retirement funds, insurance, and other personal finance basics than they did 5 years ago.”

Despite their lack of financial literacy, incoming college students are reportedly inundated with offers for credit cards. A recent article in the *Kansas City Star*, entitled, “Credit Card Hawkers Nest on College Campuses”—I love those headline-writers—

[Laughter.]

“Credit Card Hawkers Nest on College Campuses,” reported that: “Like it or not, credit card hawkers are just as much a part of campus life as fraternities, sororities, and homecoming games.” According to Nellie Mae, which provides student loans, the vast majority of college students, 83 percent, have at least one credit card. The GAO reports that over half of college students acquire their first credit card during their first year in college. The research suggests that most college students have credit cards, but, yet, lack the basic financial knowledge to effectively and efficiently use them.

Therefore, it comes as no surprise that many students build up significant credit card debt without fully comprehending the consequences. According to the Department of Education, in the 1999–2000 school year, 45 percent of college students had a balance due

on their credit cards, with a median balance of close to \$1,450, and an average balance above \$3,000. This has led many colleges and universities to consider what role they can play in helping their students achieve a smooth entry into the financial system.

Today, we are very fortunate to have an excellent panel of witnesses in order to discuss these issues. I will defer introducing the panelists until we have had an opportunity for other Members to make their opening statements.

Congresswoman Slaughter, I know you have come to present one of our witnesses. I will just inquire, does your time schedule permit you to wait until we complete our statements here before doing so?

Representative SLAUGHTER. I would be happy to hear them.

Thank you.

Chairman SARBANES. Good. We are very pleased that you are here with us.

Senator Dodd.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Thank you very much, Mr. Chairman.

Let me commend Congresswoman Slaughter. She has been a terrific financial literacy advocate. She is not just here to introduce a witness, but she also, has introduced a companion piece of legislation in the House. There are some differences with the bill that I have introduced and the one that she has introduced. But she has been a real leader along with John Duncan, a Republican Member of the House, in this area, and I want to commend her for it.

And Mr. Chairman, I want to thank you—

Chairman SARBANES. We will refrain from asking whether the differences are better or worse.

[Laughter.]

Representative SLAUGHTER. We will work it out.

Senator DODD. I am sure that that will emerge.

Chairman SARBANES. That will emerge in the course of the discussion.

[Laughter.]

Representative SLAUGHTER. We can fix it.

Senator DODD. It is fixable, however.

[Laughter.]

First of all, let me thank you, Mr. Chairman, and our witnesses for being here. This has been an issue that I have been deeply interested in for a number of years, since some of the earlier data began to emerge. And I think it is important at the outset to say, look, having students with credit cards is not a bad thing at all. In fact, credit cards have been a wonderful asset for lot of people, allowing them access to consumer goods and activities they never would have been able to have if not for the use of credit cards.

I do not want this hearing or my position to be construed in any way as anti-credit card. It has been a wonderful asset. And there are many financial institutions which do a good job. This is not an indictment of all financial institutions and how they handle credit cards. However, the ugly reality is that some of these companies do abuse the credit card system, and unfortunately, a lot of vulnerable young people are taken advantage of. And as a result, we have seen an escalating increase in the amount of consumer debt among

young people, burdening them even before they begin their adult lives with financial obligations that make it very difficult for them to get underway.

So, this hearing and our legislative proposals, despite what the opponents of it have tried to suggest, is not in any way designed to stop or to discourage the use of credit cards among young people, but really, to inject a dose of reality in terms of what is happening on college campuses all across the country.

The headlines that the Chairman used, while they may seem creative and clever, in fact describe very accurately the situation in far too many cases.

And so, it is an important time to conduct this kind of a hearing and to once again raise the issue. We voted on this in the past on the floor of the Senate, and to the credit of the credit card companies, they are able to muster the votes every time to defeat even reasonable legislation designed to inject some degree of financial literacy into the debate. But we will not stop from trying to see if we cannot improve the situation.

Let me just mention a few things, if I can.

Incoming freshmen in college are woefully unprepared, in my view, to handle the ordinary financial obligations that come as a result of entering college. And for the first time, graduating high school seniors and incoming college freshmen are presented with new opportunities and confronted with difficult decisions that will affect them for the rest of their lives—access to large amounts of credit, primarily through the use of credit cards. Most new students lack the financial sophistication necessary to handle the terms and conditions associated with credit card use.

Making credit available to help finance the pursuit of higher education is something that we all recognize as vital, and credit cards can play a very important role in that. However, the predatory practices of some credit card companies and the failure to ensure that college students recognize the long-term consequences of incurring these debts is a serious and it is a growing problem.

The fact of the matter is that some financial institutions view incoming college freshmen as shooting fish in a barrel when it comes to credit card solicitations. Financial institutions have become more concerned with “branding” than forming responsible financial relationships with new consumers. They are more interested in luring students with offers of low minimum payments, free T-shirts, and other giveaways than caring about whether or not the prospective customers can reasonably handle their credit obligations.

Earlier in this Congress, as noted by the Chairman, I introduced the Underage Consumer Credit Protection Act of 2001. It would require that credit card issuers, prior to granting credit to persons under the age of 21, have one of the following—not all of them but any one of the following: A co-signature of a parent, guardian, or other responsible party; an independent means of financial support for repaying their debts—not an outrageous or radical suggestion, I would offer—the debts that they would incur; or the completion of a certified credit counseling course. Any one of those three and you get the credit card. Not all three, but any one of the three.

Financial institutions, in my view, must take a closer look at individuals to which they are extending credit, and this bill would do

just that by requiring a responsible and realistic approach to providing credit.

When we raised this issue in the past, we were flooded with inquiries from parents all across the country who are horrified about what is happening in too many cases where they incur the obligations as a result of what their children have signed onto without their knowledge, they are stunned by what is going on. So this is designed to encourage a greater degree of responsibility.

Better education makes up only part of the equation that will help us achieve our goal of financial responsibility. It is important, I think, as well to remember that we should not only encourage financial institutions to better educate the consumers, especially those receiving credit for the first time, but we must also remind financial institutions that they have an obligation, in my view, to make credit decisions that are realistic and responsible as well.

We are facing a looming financial crisis in this country, an explosion in the levels of consumer debt and an increase in personal bankruptcy rates. Credit card use has played a significant role in the rapid increase in indebtedness in our Nation. In a *Washington Post* editorial on Sunday, David Broder cited a biennial report conducted by the Economic Policy Institute. The Economic Policy Institute report exposes the rising levels of consumer debt incurred by middle Americans during the 1990's. According to the data collected by the Census Bureau and the Federal Reserve Board, debt during the 1990's rose from 80 percent of disposable personal income to well over 100 percent. One in seven middle-income households were spending at least 40 percent of their income on monthly payments and one-sixth of their income on reducing debts alone.

Dramatic increases in debt, coupled with the slowing of economic expansion that we have experienced in the past 3 years, has begun to force significant increases in the number of personal bankruptcies. In fact, the Consumer Federation of America reports that 1.45 million personal bankruptcies last year alone—this was the all-time high—largely driven by credit card use within the last 10 years. In my home State of Connecticut, personal bankruptcies increased by 42 percent between 1994 and 1999, and those numbers are expected to increase when the next reports come out.

As the bankruptcy reform legislation is being debated in conference, I believe we should reexamine the potential adverse effects of this piece of legislation. This bill would have an unintended adverse impact on the most vulnerable in our Nation, including the children of those who file for bankruptcy, and the hard-working families faced with extraordinary financial challenges and others who have fallen on hard times through no fault of their own.

So as we continue to explore ways to better improve the financial literacy of our Nation's younger consumers, I also think that we have an obligation to be vigilant in encouraging the responsibility of financial institutions. That, unfortunately, is not the case in far too many of them.

Mr. Chairman, I thank you again for holding this hearing and I am anxious to hear what our witnesses have to say.

Chairman SARBANES. Thank you, Senator Dodd.

Is it correct that the three things you mentioned were part of the alternative, in terms of getting a credit card?

Senator DODD. It was either show you have the financial ability to pay, have a parent or guardian co-sign for you, or be willing to go through some credit counseling course so you would know what your obligations would be. Any one of those three.

Chairman SARBANES. Any one of the three.

Senator DODD. Any one of the three.

Chairman SARBANES. Right.

Senator Johnson.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Mr. Chairman, thank you for holding this hearing on the importance of financial literacy among college students. I also want to thank our distinguished witnesses for taking time to join us today, and a particular welcome to my former colleague, Representative Slaughter, a wonderful friend during my years in the House, and continues today. This hearing is indeed timely, with millions of students returning to school this month. Financial literacy should be part of any complete education, and I commend you, Mr. Chairman, for highlighting the importance of this issue.

As I have noted in previous hearings on financial literacy, part of what makes our Nation great is the opportunity that we all have to make something of ourselves. Equal credit opportunity is an important aspect of achieving the American Dream. Likewise, I believe the ability to finance a college education provides important opportunities for success. In fact, last February, I was pleased to be able to secure passage of legislation that will allow students and their parents to receive student loans at affordable interest rates, that legislation now signed by the President. This was a big step in ensuring that young Americans have access to college education.

The topic of today's hearing is equally important. While credit cards provide important opportunities for our young people, it is critical that these students have the financial education to use, rather than abuse, those chances. While students must take responsibility for their own finances, credit card companies have a role to play in helping American students use credit responsibly.

This year, my daughter Kelsey will be a junior at the University of South Dakota. As a father, I am glad that Kelsey has access to a credit card, and I have been pleased that she has used her credit card responsibly. I am sure that my threat to call her up as a witness on irresponsible credit card use before the Committee has had nothing to do with her prudent spending habits.

[Laughter.]

And I would share with the Committee that she has an older brother who went through some painful experiences about the wisdom of credit card debt. Even so, based on her experiences, I can relate a number of good reasons for students to have access to a full array of banking services, including credit cards.

Credit cards enable students to build a credit history, to learn about credit and build financial management skills. A good credit history is important for being able to rent an apartment or finance a car. It can also help with job applications.

Also, credit cards provide a mechanism to pay for school supplies, such as books in anticipation of seasonal income or a student loan disbursement.

Another good reason for students to carry credit cards is security. I know I feel better that my daughter has access to money in case, for example, her car breaks down. Also, having a credit card means that she doesn't have to carry as much cash with her.

At the same time, of course, problems arise when students fail to use credit responsibly. Today's witnesses have provided important evidence of these problems in the written testimony and in Dr. Manning's books. I am also concerned about the volume of credit card solicitations, and believe that students shouldn't be showered with credit offers that they did not request.

Although I am not an advocate of the devil-made-me-do-it school of personal responsibility, I do believe that the emphasis should be in other directions rather than restricting credit available to responsible young people, and I believe that continued emphasis needs to be placed on financial literacy programs.

A good financial education can help people make better decisions throughout their lives, whether it be the choice between a fixed rate or adjustable rate mortgage, or whether to buy or lease a new car. I applaud financial literacy programs offered by a number of organizations, including nonprofit groups such as the Jump\$tart Coalition, public sector organizations, and large credit card issuers.

Mr. Chairman, I thank you for calling attention to the role that financial literacy plays in ensuring that our college students understand basic money management and I look forward to hearing from our distinguished witnesses.

Chairman SARBANES. Thank you very much, Senator Johnson.
Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Well, Mr. Chairman, first of all, let me make it clear, I am for financial literacy. In fact, I wish everybody had to take a course in economic literacy before they voted, much less got a credit card.

[Laughter.]

I would have to say, though, that I do want to set out some cautions. When you are dealing with college students, unless they are extraordinary students and have arrived in college before their class has arrived, they can be drafted. They can start a business. They can get married. I think in a free society you always have the question about how far should paternalism—I guess in the South, you would want to say maternalism—go.

And we have had debates in the past. I know it is not the subject today. But since it brushes up against it, we have had questions in the past and voted in the past on issues related to college students being able to get credit cards. I have never seen credible, solid, empirical evidence, and I would like to see it, on whether college students are better credit risks than the population as a whole. Let me say, I would not be shocked if they were.

If I were in the banking business, I would send a credit card to every engineering student at every major university in America. And I would make the point, you are going to make a lot of money.

You are going to be a reliable citizen. You may have questionable credit today, but you are not going to have it for long. I want you to remember my bank when you are rich, and I want you to put your money in it.

I would send a credit card to everybody that goes to Notre Dame University and everybody that goes to Texas A&M, because you are going to make money by doing that. Now, I know there is a paternalism thing that, well, maybe there is some person there who is not up to it. I think economic literacy and financial literacy are critically important and I am very much for promoting them. And I want to be marked down as being on the side of literacy of all kinds. But I do think that we have to be careful in a free society about how far we are going to go in restricting people's rights.

I do not think this targeting of college students is somehow irresponsible. I have not seen the convincing data. Maybe it is out there. Maybe somebody has it today. I would be glad to look at it. But I would just be willing to say, even if it were my money, I would be willing to bet, if you gave a credit card to every student at Notre Dame and you tracked the profitability of that decision for 30 years, you would make money by doing it.

I am surprised they do not do more of it. Maybe they do. Maybe they just did not send them to my children. And that may have been wise.

[Laughter.]

But in any case, having said all that, I think whenever we are talking about literacy, especially financial literacy and the age we are in where people are making sophisticated financial decisions, I think it is always a good thing and I am always for it.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Gramm.
Senator Bayh.

COMMENTS OF SENATOR THOMAS R. CARPER

Senator CARPER. Mr. Chairman, could I just have 30 seconds? I asked Senator Bayh if I could just have 30 seconds to make a quick comment. I need to slip out a minute and then I am coming back.

May I speak out of order?

Chairman SARBANES. Sure.

Senator CARPER. Thank you very much.

Chairman SARBANES. I would rather Senator Bayh acquiesce.

Senator CARPER. I think he has.

Senator BAYH. I would be pleased to acquiesce.

Chairman SARBANES. He more than acquiesces.

[Laughter.]

Senator CARPER. I just want to welcome three people from some of my old alma maters.

Congresswoman Slaughter, it is great to see you again, Louise. Welcome.

Representative SLAUGHTER. It is good to see you.

Senator CARPER. Thanks for being here today.

Ms. Hart, "O-H."

Ms. HART. "I-O."

Senator GRAMM. I meant to mention all those colleges. I did not know you all were from colleges. Okay.

[Laughter.]

Senator CARPER. It is great to have you here. Go Bucks.

Mr. Miller, Treasurer from Kentucky, where my mom and sister live, we are happy that you are here. I am an old treasurer myself. And Jack Markell, our State Treasurer today, is one of your colleagues and is very much a great leader on financial literacy for people young and old. We are grateful that you are all here and I look forward to coming back and hearing part of your testimonies.

Thank you, Mr. Chairman.

Thank you, Senator Bayh.

Chairman SARBANES. Senator Bayh.

STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you, Mr. Chairman. I would like to echo the comments of other Members of the Committee for your holding this hearing today. It is a very important topic. And to Senators Dodd and Johnson and others who have worked on this, I compliment you for the important work you have done. You really have set the table here for making some important progress in this area.

I think Senator Gramm has raised really one of the critical issues that has to be addressed here—at what age and under what circumstances are American citizens qualified and able to make important decisions for themselves? Or to phrase the question a little bit differently—and by the way, Phil, I am pleased that you singled out Notre Dame as an area of responsibility since it is located, as you know, in South Bend, Indiana. You could choose the other institutions in our State as well.

To look at it a little bit differently, or to phrase it just a little bit differently, what are the necessary antecedents for a fairly and freely functioning marketplace? What do people need to know to be informed consumers? I think Chairman Sarbanes in his opening comment put his finger on part of the answer.

As Senator Gramm mentioned, you can enlist in the military, you can vote, you can choose to smoke in many jurisdictions, drink alcohol, drive an automobile, do other things, enter into certain kinds of debts, get married. But the data also indicates that 82 percent of seniors in high school do not have sufficient information to qualify under at least some definitions for being financially literate.

So it is entirely possible, I would say to Senator Dodd, that we do have a market failure here because the information just has not been made available because we haven't emphasized it in our academic institutions—primary, secondary education—to give particularly younger college students an adequate base of information for making these decisions on their own.

The question I think we have is do we have a market failure here that needs to be filled in with more adequate information? I think the answer to that question is, yes, we do. And I salute you for focusing on this challenge.

I would also just like to say a word about Treasurer Miller. He comes from our neighboring State of Kentucky. He has labored in these vineyards for a long time. He is going to be discussing for us, Mr. Chairman, some of his ideas about the Commission on Personal Savings and Investment that he has promoted in Kentucky, and has really done a good job in that Commonwealth of trying to

ensure that young people do have the kind of information they need to make these decisions.

Treasurer Miller, it is good to see you. I apologize for needing to slip out, but I am aware of your good work and I compliment you for that, just as I do Senator Dodd and the other Members of the Committee.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you, Senator Bayh.

Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman. As you noted, financial literacy for the unbanked, for the immigrant community, and college students, is something that you have focused on. I compliment you on this and raising up this issue.

I think the point that has been mentioned about the 82 percent failure rate on a simple test is really the foundation point for the discussion that we will have today.

And for a father who is sending off a young man for his freshman year in college, actually just yesterday, this is even a more frightening prospect to attend to. We want to make sure that he understands what 18 percent compound interest is.

I think it is a question that should be asked of those responsible for approving credit, that the ability to pay is a question that should be addressed before credit is extended. At least that is what I learned in my previous banking world career.

And so, I think there are questions here of responsibility on both sides that need to be addressed, and they all underlie the fact that we need to improve our financial literacy and economic literacy, in this country.

I think the kind of legislation that Senator Dodd has proposed, which brings some checks and balances to make sure that that exists, is a very worthwhile idea. And I am hopeful that we will hear perspectives on that from people that are laboring in the vineyards.

I appreciate very much your holding this hearing on this subject and the actions that we might be able to draw from it.

Chairman SARBANES. Thank you, Senator Corzine.

Senator Reed.

COMMENTS OF SENATOR JACK REED

Senator REED. Thank you, Mr. Chairman.

I want to commend Senator Dodd also for his leadership on this issue. Certainly, no one can argue the need for financial literacy, and not just restricted to college students, but across the board.

There are some interesting statistics. Nellie Mae conducted a study that found that 21 percent of college students have credit card balances between \$3,000 and \$7,000. Those are pretty impressive figures. I would shudder if my balance was that high.

They also found that college students are three times more likely than the general population of credit card holders to be 90 days' delinquent on their payments, pay late fees, and to pay over the limit fees, which suggests that there is probably some literacy that could be improved.

Then another survey, interestingly enough, conducted by George Mason University, found that among students with student loans, more than two-thirds have used money from their loans to pay down credit card debt. So borrowing money to pay down credit card debt is not the strategy I think we would recommend.

I think this is a timely hearing and I commend Senator Dodd for leading the effort.

Let me also recognize, Louise Slaughter from New York, a dear friend and colleague in the House. And thank you all, the panelists, I look forward to your testimony.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Reed.

Congresswoman Slaughter, we would be happy to hear from you. I want to underscore again how pleased we are that you have come to be with us today. I also want to recognize the leadership role you have played on the subject of college students and credit cards.

**STATEMENT OF LOUISE SLAUGHTER
A U.S. REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW YORK**

Representative SLAUGHTER. Mr. Chairman, Senators, thank you very much. I am delighted to be here this morning, and to see my colleagues from the House who were truly dear friends.

I always knew, even then, that they were destined for greatness and a 6-year term.

[Laughter.]

I do not want to let the moment go by without congratulating this Committee for the extraordinary work you have done on corporate responsibility. The whole country is in your debt for that.

This hearing is necessary, and I am so pleased that you are holding it because the lack of financial education and its consequences among college students is something that we have been worried out in our office for some time.

I am pleased to introduce Dr. Robert Manning, who is a Humanities Professor at the Rochester Institute of Technology in my district. I became aware of Professor Manning's work in 1999, when he published a study through the Consumer Federation of America illustrating higher credit card debt among college students than previously thought.

The study found that students are snowballing into debt through the extension of unaffordable credit lines, peer pressure to spend, and financial naïveté reinforced by low minimum monthly payments and the routine increases given to them in credit. His study indicated that 70 percent—which is really quite frightening—of undergraduate students possess at least one credit card and, indeed, credit card solicitations fall upon students like snow. Students are receiving their first card at younger and younger ages, now into the high school years. A GAO accounting office study that we requested found similar statistics, that 64 percent of college students had at least one card.

Now, like you, I have no problem with them having as many cards as they want. The difficulty is that we find most students do not know what credit card debt means. We hear from the parents who are forced to try to pay off that debt, which brings that lesson

home. College students are much more likely than other types of credit card users to run up debts they cannot pay, because of their financial inexperience. The consistent misuse of credit cards by college students, particularly combined, as Senator Reed mentioned, with student loan debt, could lead to substantial debt burden.

According to the GAO report, and I must say that the GAO did not find much cooperation among universities. It would have been a much more extensive report had they been able to do that. But two of the universities of the 12 that they visited had to make bankruptcy attorneys available to counsel students who were having financial difficulties. According to one of the attorneys, over the 3 years since April 1998, 1,328 students had to use that legal service and that many of them had to declare bankruptcy. Credit card debt of the students who sought advice from the bankruptcy attorney range from about \$2,100 to \$39,000, and average approximately \$11,200, which is frightening.

I am very much concerned with rising credit card debt among young people and the serious implications that it has for their future. Too many students are literally spending their futures now.

Let me give you a riddle. Who has been denied a credit card with a high limit? A, a cat. B, a 3-year-old toddler. C, a freshman college student with no independent income. Or D, a 25-year-old full-time worker. The correct answer is D, the full-time worker. Not only did a cat in my district receive a credit card with a \$3,000 limit, but a local toddler received her very own platinum credit card with a \$5,000 limit.

We all agree that that is very foolish, but we are really concerned about the ease of credit to people who have no ability to pay the bill. Many, many parents have contacted me about children who have had to drop out of school because of credit card debt. It is a tragedy if a good student with good grades, academically successful, has to drop out of school because of debt on a credit card that they cannot pay. One constituent's stepson filed for bankruptcy at the age of 21 when he had \$30,000 in credit card debt. Another mother called me because of enormous credit card bills her daughter accumulated as a student at the University of Buffalo.

In response, as Senator Dodd mentioned, we have our legislation which we are looking forward to working with him into fruition as law. Like his bill, we require parents to co-sign, particularly if they are going to be held accountable for the credit. We are concerned, too, that more credit is added to the original cards as the student continues in college, regardless of their ability to pay.

One of the most important things I think that we need to say is that young people at least deserve to know that by declaring bankruptcy at the age of 20 or 21 years old, they may very well be jeopardizing their ability to access credit in the future—more difficult to get mortgages, more difficult to get car loans. I think they have no idea of that. So, we need to do what we can to, at least, make sure that they understand the consequences.

I do appreciate very much your holding this hearing today. I think it is very important. And thank you so much for letting me be with you this morning.

Chairman SARBANES. Well, thank you very much. We are very pleased you were able to join us.

Representative SLAUGHTER. Thank you.

Chairman SARBANES. We appreciate it. I say to my colleagues, I know you have a pressing schedule, so we will certainly excuse you.

Representative SLAUGHTER. If I may be excused.

Chairman SARBANES. Thank you.

Well, we are very fortunate to have a very able panel here this morning. I am going to just briefly introduce each, and then we will turn to the witnesses.

Dr. Robert Manning, who will lead off, is, as we heard, Professor of Humanities at the Rochester Institute of Technology. His book, "Credit Card Nation," received the 2001 Robert Ezra Park Award for Outstanding Contribution to Sociological Practice from the Sociological Practice Association, and his study, "Credit Cards on Campus," received the 2000 Morris Rosenberg Award from the District of Columbia Sociology Society. And I might note that Dr. Manning received his Ph.D. from Johns Hopkins University.

We have also been joined by Ellen Frishberg, who is the Director of Student Financial Services at Johns Hopkins University, a position she has held for the past 13 years. Ms. Frishberg has served on a number of national loan advisory boards, including the Sallie Mae Advisory Council and the American Express Loan Board. As I understand, today is the first day of classes at Hopkins, so we especially appreciate that Ms. Frishberg could take the time to be with us.

Our third witness is Ms. Tally Hart, the Director of Student Financial Aid at Ohio State University, one of the largest financial aid offices in the country. Ms. Hart has done significant research on student loan defaults and she helped Ohio State University develop courses to teach financial literacy to its students.

Professor Michael Staten is the Distinguished Professor and Director of the Credit Research Center at the McDonough School of Business at Georgetown University. Professor Staten's book, "Consumer Attitudes Toward Credit Insurance," co-authored by John Barron, won the American Risk and Insurance Association's Eliza Wright Award.

And finally, we have the very able Kentucky State Treasurer, Jonathan Miller. Treasurer Miller established and now serves on the Kentucky Commission on Personal Savings and Investment. The Commission held a hearing on student financial literacy at the University of Louisville in December of last year that actually touched on many of the issues we will be discussing today. Treasurer Miller was one of 200 distinguished delegates appointed by President Bush and Congressional leaders to the National Summit on Retirement Savings.

We are pleased to have all of you here. Dr. Manning, we will begin with you and then we will move straight across the panel.

Your full statements will be included in the record. And I want to, at the outset, express our appreciation for the obvious work and effort that has gone into these statements. If you could summarize the statements to somewhere between 5 and 10 minutes, that would be very helpful to the Committee. And once we have heard from all the panelists, we will go to questions from Committee Members.

Dr. Manning, we will hear from you first.

**STATEMENT OF ROBERT D. MANNING, Ph.D.
CAROLINE WERNER GANNETT
PROFESSOR OF THE HUMANITIES
ROCHESTER INSTITUTE OF TECHNOLOGY**

Dr. MANNING. I would like to thank Chairman Paul S. Sarbanes for providing me this opportunity to share my views with the Committee on this increasingly important topic of consumer debt among college students, and especially the lack of financial literacy/education programs for America's financially vulnerable youth. In addition, I applaud the legislative initiatives of Senator Dodd, who has championed credit card marketing restrictions on college campuses along with critically needed financial education programs, and also Senator Schumer's efforts to protect consumers from deceptive marketing and contract disclosure practices of the credit card industry. I should note that I am particularly pleased to attend today. This is the first hearing on this topic since March 1994, and that the twin issues of rising consumer debt and the shockingly low levels of financial literacy among our youth have grave implications for the continued economic well-being of the Nation, especially as Americans age into debt. And it is for these and other reasons I commend the Committee for accepting this daunting task of examining these serious issues.

I am an economic sociologist. I have spent 16 years studying the impact of U.S. industrial restructuring on the standard of living of various groups in America. And over the last 11 years, I have been particularly interested in the role of consumer credit in shaping consumption decisions of Americans, as well as the role of retail banking in influencing the transformation of the U.S. financial services industry. In terms of today's hearing, I want to discuss my new report, which I feel is especially germane, which is really the first case study based on a representative survey of 800 college students in the nearby school here of George Mason University. In addition, I have been very actively involved in the national movement to improve the financial literacy/education of our youth. And it is my work with colleges, universities, and student loan organizations that has really inspired my own efforts on Internet-based education on this topic.

What I want to emphasize to the Committee today is that this is truly a unique period. If I could use the term from Wall Street, the "Triple Witching Hour." What we have before us today in higher education is a real crisis. That is, unprecedented levels of student loan debt, unprecedented levels of credit card debt, and the worst job market in over a decade. Indeed, as long as America's economic expansion has continued unabated, college students were lulled into a false sense of financial security by university administrators and credit card finance companies. Indeed, keep in mind that this is a generation that grew up with TV's *Friends*, the sitcom, whose mid-town New York City lifestyle belies their modest professional incomes. This is a generation that is unprepared for the bursting of our Nation's economic bubble.

I do not think there is any dispute that over the last decade we have seen a sharp increase in borrowing and the cost of credit, particularly with the decline in public funding of higher education. What is critical, though, is the relationship of student loan debt

and the relationship of universities in terms of encouraging and fostering greater levels of debt, and particularly the lack of balance of providing an environment that is going to encourage students to understand the degree and impact that their debt is going to have.

In fact, in 1994, when the last hearing on kiddie cards was actually held, we were looking at a period of time when it was really rare to find a student with over \$5,000 in credit card debt. Today, I can go to any college across the country and find a student with anywhere from \$20,000 to \$25,000 in credit card debt.

What I find most striking since my 1999 "Credit Cards On Campus" study is the fact that the situation is far worse than it was then. Keep in mind here what I see as a very important and in some cases duplicitous and insidious relationship between higher education and the credit card industry. Also keep in mind that of the 250 largest public universities in the country, they account for approximately two-thirds of all enrolled students in 4-year universities. And this features universities like the University of Tennessee, which signed a 7-year contract with First USA in 1998 for at least a guaranteed \$16½ million, as well as the University of Oklahoma that received a \$1 million signing bonus. Some of you might have seen the *60 Minutes* program that was based on my "Credit Cards On Campus" study. And what is critical is that when we requested information on what universities were doing with these credit card royalties, we could not find a single penny that was going into any form of debt refinance, debt consolidation program for students in debt, or for any credit card or financial literacy education programs.

Now over the last two decades, the two most noticeable trends in the marketing of credit cards to college students is that they are being marketed at a progressively earlier age and what we are seeing is that there is a sharp rise in personal debt associated with consumer credit cards that tends to be artificially compartmentalized in terms of student loan debt and credit card debt.

What I want to show today is this relationship and why it shouldn't surprise us that the risk associated with marketing of credit cards on campus is so much lower in terms of their being underwritten by publicly subsidized student loans, summer earnings, efforts of getting parents to pay down debt during extreme crises, and even using one credit card to pay another. I am not going to go into detail since I have had in many other places many of the methodological problems and issues in terms of industry-structured investigations on this topic. What I do want to emphasize is that the methodologies clearly define whether there is the identification of a problem. In other words, if you are doing a survey of a particular school and you are looking at enrolled students, you are not going to find anybody who has dropped out of school because of student loan debt. That is by definition of that research design.

What I want to emphasize is that what we are seeing today is about 15 years ago, when the industry released their voluntary policy of having parents co-sign for credit cards, we have seen the move from marketing affinity credit cards to alumni to college seniors, then to juniors and sophomores to freshmen, to today, we are seeing the marketing of credit cards to high school seniors.

And indeed, we will discuss what the implications of this will be. But keep in mind that the marketing of credit cards at an earlier age, unless that life experience means that students are going to handle them more appropriately, means that the debt burden is going to show up earlier. It means that retention in college is going to be affected, and we are going to see increasing drop-out rates because a student who has a debt problem in their sophomore year may not be able to find a way to financially limp through the last 2 years, whereas, 5 years ago when I started this research, we were looking at this problem manifesting at the junior and senior year. This is clearly an issue that is going to have to be addressed by college administrators.

In terms of my limited time, what is very clear here is that industry-sponsored and financed research does not disagree that we are marketing credit cards to younger students. The disagreement is the amount of debt that has been incurred.

Indeed, we will be listening to Dr. Staten's report from his recent study. But keep in mind, what we are interested in is the experience of college students, not some amorphous set of accounts, since we know that the average college student has three credit cards.

What we need to understand is when a student starts college his freshman year, and we want that person to graduate, what is that experience and how much credit card debt has been accumulated.

So, I think the Committee staff has done a fantastic job of presenting to you some of the statistics that show quite clearly two things—over the last 3 years, average and medium credit card debt has increased significantly. And more importantly, as credit cards are used at an earlier age, students are accumulating debt at a much earlier age.

There is no doubt, and Professor Mandel's study on financial literacy among college seniors that has been alluded to, it is shocking that the problem with his data shows that high school seniors actually are doing worse on these scores, that attention to this topic is not by itself a market-driven explanation that is going to resolve it. Yes, we now admit that there is a problem. But we are not seeing anything that says that we are going to solve it.

What I want to report to you today, then, is the findings of the study that we conducted here at George Mason University in this area. And I want you to keep in mind that the lack of financial education and literacy and parental oversight of students' purchasing decisions is being fostered by the increased use of the Internet. But also keep in mind that as budgetary constraints impact high schools, more and more high school students are going to be taking courses in junior college, in 4-year colleges, and more and more students are getting credit cards before their parents ever thought it was possible.

This is critical because where are children and teenagers going to get financial education? At this point in time, it is only in the household. And when these students make decisions outside of the purview of their parents, of course there is going to be some other issues that come up. In fact, a recent study at Pennsylvania State, the Erie campus, showed that those students whose parents co-signed on their credit card showed far more responsible spending

and consumer behavior patterns than those who got their credit cards independently.

What I want to do is point you first to Table 1, which shows us that approximately 77 percent of all students at George Mason have a credit card. And it should not surprise us that 62 percent of the freshmen have them; but by the senior year, nearly 90 percent have credit cards.

More importantly, you will notice that as we go from freshmen to seniors—

Chairman SARBANES. Is this Table 1 of your statement?

Dr. MANNING. Yes, it is.

Senator GRAMM. Okay.

Chairman SARBANES. So if we go to the back of the statement, we have it right here.

Okay.

Dr. MANNING. What is important here is that we are seeing that students are getting their credit cards at an earlier age. Eighty-six percent of the freshman class that have credit cards received them by age 18. In fact, one of the striking findings of this report is that, given the intensified efforts to market in high school, last year, we saw a doubling, from 16 to 30 percent of students who said that they received and are using their first credit card in high school.

Now keep in mind that the average cost of acquiring a new bank client is somewhere around \$120 to \$170. And I do not think it is going to be unreasonable to assume that some credit card companies may offer kiddie cards with comparable limits for students under 18 years old.

Now access to credit does not necessarily entail debt problems. So the real question is what are students doing with their credit cards and how are they using them? In fact, when we asked students, have they maxed out on their credit cards, shockingly, 60 percent of the freshmen with credit cards said they have maxed out their credit cards and three-fourths of all other students said that they have maxed out their credit cards.

Freshmen are more likely than upper classmen to use their student loans to pay down their credit cards. This was shocking to us because I have not found an industry-sponsored study that actually explicitly asked the question, "have you used your student loans to pay your credit cards?" And lo and behold, what we found here is over 70 percent, over two-thirds of all students are using their student loans to pay for their credit cards.

This is critical and it shows us how important the role of understanding debt in colleges, that it is dynamic. We cannot create these artificial categories. But, publicly subsidized student loans are underwriting and reducing the risk of marketing credit cards. Also notice the high rates of students who are using one credit card to pay for another credit card.

Chairman SARBANES. Dr. Manning, I am going to ask you to draw it to a close.

Dr. MANNING. What I want to do then is conclude with some of the narrative comments that we have, and I think this one statement will really reach closure for my statement at this time.

This is a student who, in terms of responding to what and how the issue of consumer credit cards affects them and their real-life

experience. He says: "I believe credit card use by students is alarming. How do students who generally do not work pay back credit card bills? I think that there should be restrictions and legislation on credit card solicitations on college campus. College administrators, student government council, et cetera, have a responsibility to protect and educate students on the evils of credit card companies seeking student sign-ups. Also, I think credit card knowledge and awareness should be part of the College 101/1st-year orientation class to help prevent this epidemic sweeping across college campuses. My mom was once a bank loan lender and she noted to me the sadness of the number of people who are denied loans because of poor credit ratings established as young college students."

That is the voices from campus today.

Thank you.

Chairman SARBANES. Thank you.

Ms. Frishberg, we would be happy to hear from you.

**STATEMENT OF ELLEN FRISHBERG
DIRECTOR, STUDENT FINANCIAL SERVICES
JOHNS HOPKINS UNIVERSITY**

Ms. FRISHBERG. Thank you, Chairman Sarbanes, and Members of the Committee.

It is my honor to be here today to represent the interests of the students of the Johns Hopkins University to discuss this issue of credit card usage among college students. We are a decentralized, multifaceted research university and I have been there for 13 years helping students to pay for college. I work primarily with undergraduate students. And at that endeavor, we are a very small, selective private college of 4,000. However, we educate 17,000 through our programs that are full and part-time, graduate and undergraduate. We have eight divisions. We have nine campuses. We are on three continents. And I think my remarks do affect all of those learners wherever they may be. But primarily, they affect the undergraduates.

We are very proud of the outcomes of our students. They succeed and they graduate in impressive numbers, and more than any other school in the Nation, they go on to graduate and professional education. This has made our undergraduates an incredibly attractive market for financial companies who are looking for lifelong customers, as Dr. Manning mentioned. I have never wanted for a student loan lender who was willing to lend to my students and their families. We have a default rate of less than 2 percent. We have an average graduating debt of \$16,200—that is student loan debt—from all Federal student loans. Our students establish themselves as good payers. So solicitation of these students starts very early. Many of our freshmen arrived on campus this past weekend armed with credit cards they received as high school seniors. It appears that the lists that are available to the direct mail marketers come from a variety of sources, some of them long before the students ever register at our school. But the students arrive with the credit cards and without an understanding of how they work. They do not understand what APR is. They do not understand compound interest. And they do not understand why paying only a small amount of their bill will get them into trouble later on.

Because of the ease of getting credit and the lack of financial savvy on the part of our otherwise very bright students, and the unchecked solicitation and giveaways that were going on during past orientation weeks, back in 1994, the Dean of Students decided to prohibit credit card vendors from setting up tables on campus. At about that time, my staff and I became alarmed at the growing number of students we were hearing about who were dropping out, who were having credit card problems, and they were leaving school in order to repair their financial health. They were going out, getting jobs, paying off their debt, and then coming back. I have appended to my statement one from an inner-city youth from Baltimore. He was the child of a homeless woman. He was raised by his grandmother. He has become a great success. He graduated from Georgetown Law School and is now working as an attorney. But by the end of his second year, he had already maxed out four credit cards. By the spring of his sophomore year, he had eight credit cards. He was earning \$50 a week as a work-study student and by the time he dropped out of school, he, and at that time, his girlfriend, had 13 credit cards and \$11,000 in debt. He had no income. He had no family resources to fall back on. He had lots of T-shirts and mugs. He had lots of debt. Luckily, he came to us and asked for a lot of help to try to restore his financial health, and he was able to do that and become a success. But he was a victim of these credit offerings. And you can read his statement attached to my testimony.

Keeping credit cards out of the hands of students is very difficult. As Senator Dodd said, we know that credit is not always a bad thing. It provides for emergencies. It allows students to shop on the Internet, and that is where they get used books at a discounted rate and air miles. Our students come from 50 States and they do need to look for low-cost ways to get here. However, we thought that if we made sure that our student loan and other financial services' vendors were not cross-marketing financial products to the database of students that they were lending to, it would help to reduce the direct mail and the Internet offers that came because of the students' relationship with the university. We did not want them to be getting these offers because they were students at our institution.

For a variety of reasons, this being one of them, the university decided to participate in the William D. Ford Direct Loan program, which took private lenders out of the student loan equation for our need-based loans. We have no empirical evidence, but we do believe that this decision has also reduced, but by no means eliminated, the number and type of solicitations that our students received for other financial products, including credit cards. Our concern remains that if you or I get into credit trouble, we have ways out—home equity loans or mortgage refinancing. But if our students get into trouble, their options are very limited. Often, it is their unknowing parents who end up dealing with the debt.

However, we are not so naïve as to believe that we can restrict or control the behavior of our students, who live their lives on the Internet—and if you ever searched on the Web, you know that pop-up credit card offers are a way of life. We do advise our students on student loan issues. But we do not advise them on credit card

issues because they do not come to us. They come to us when they have student loan needs and we have the opportunity to talk with them directly. Speaking of the web, colleges and universities are offering new web services to students to ease getting through administrative processes, including allowing tuition to be paid by credit cards. While Hopkins does not allow this for full-time students, we can see how it could help to get students into trouble. Because of the short time that it takes to apply for and receive a credit card, some students will follow the path of least resistance and opt for a credit card rather than for a student loan. Compared to the process of applying for a Federal student loan, which can take up to 6 weeks and lots of applications and forms—Credit cards are sometimes the easier way to go.

Our alumni association does offer an affinity card and that is something that we were very concerned about. The JHU card is not permitted, we do not permit MBNA to distribute that card to our current students. We restrict them to only marketing that card to our graduating seniors and to parents of current students. That is something that is currently under review, whether or not to allow that to go to parents of current students. We like that card because the monies that come back to the university from people who use our affinity card go directly into the scholarship budget and allow us to help needy students to pay their bills. But we are also happy that the marketing is restricted to graduating seniors.

What we as administrators can do is to be aware of the cross-marketing that our vendors are doing, whether it is the ID—and stored value card vendor on our campus, or our student and alternative loan lenders. We can use our stored value and debit cards as important learning tools for our students, kind of credit cards on training wheels. We can encourage students to use the opt-out service of the major credit bureaus. I am not sure enough people understand how those work. I have participated in that myself and while it doesn't eliminate, it does lessen the numbers of offers you get. And we can use our roles as educators to teach about compound interest, capitalization, and credit reports, at the same time we are doing student loan default prevention.

Many students and parents are concerned about this topic and I am thankful for this hearing. Whenever I mentioned I was coming here, there was universal agreement that a problem exists. My husband, an elementary school teacher, was a credit card executive in a former career. He believes that the banks need to take responsibility to offer national education at the high school level, as the use of cards will not go away. He says it is kind of like sex education, educating young people about birth control after the pregnancy occurs is not very helpful.

The lenders may offer financial literacy programs, but we do not see them on campus. They are not reaching our students. So, they could help us with better disclosure. They could help us with more and better programs. They can make their account statements, the inserts in the account statements in bigger fonts, not just because my eyes are going, but because they are hard to read, so young people do not think that paying the minimum on their bill is sufficient. We need more programs like the Life Skills program offered by the USA Funds Group of Indiana. And we also need our lenders

to start restricting their marketing to those who can afford to pay. It should be credit-tested. Not the students without the financial safety net or the parental resources to fall back on.

Thank you.

Chairman SARBANES. Thank you very much.

We will now hear from Ms. Tally Hart, the Director of Financial Aid at Ohio State University.

Ms. Hart.

**STATEMENT OF NATALA K. HART
DIRECTOR, STUDENT FINANCIAL AID
THE OHIO STATE UNIVERSITY**

Ms. HART. Mr. Chairman, Members of the Committee, my name is Natala Hart and I am honored to be here before you today. I am the Director of Student Financial Aid at The Ohio State University and I see in that capacity each week the growing importance of financial skills for today's students. My fellow witnesses have laid the case well for this need and demand.

I can report to you that the matter of financial literacy and keeping their children out of credit card trouble is the leading financial concern that parents express to us as they are bringing their freshmen students to our orientation and leaving them on move-in day. We think that that is very reflective of a national concern about the availability of credit and, as has been stated, the increasing opportunity for younger and younger children to obtain credit. I am the parent of a 13-year-old and I have already begun to coach her about how to be a good borrower, a good saver in her future because I know, based on her predecessor groups, that she will begin to receive credit card offerings when she is 16 years old.

In the financial aid office at Ohio State, we delved into the very small percentage of our students who had defaulted on their student loans. We were interested, as we remain interested, in driving that number to zero. What we learned in this small number of student loan borrowers who had defaulted was that the vast preponderance, more than 90 percent of them who had defaulted on their student loans, had credit card debt even higher than the amount of their student loans. So they were doing both. It was not the student loan by itself that proved problematic in repaying, but a combination of debt that included large amounts of consumer debt.

We hear from our colleagues in the residence hall system that a small but increasing number of our students are already arriving as college freshmen in credit card trouble. They define credit card trouble as these students being so concerned about how they are going to pay those bills, that the students are not able to focus adequately on their class studies and their primary responsibility of being students.

As a result, our Division of Student Affairs conducted a study about credit card practices at Ohio State among our students and I have submitted to staff a copy of that study.

We also have on our faculty Dr. Lucia Dunn, an economist, who has developed a "Debt Condition Index" with psychologists on our campus, part of a "Debt Stress Index," that describes when debt becomes so significant as to be disruptive to the lives of normal Americans.

Well, what are we doing about all of these issues?

We have taken a number of proactive steps and plan to continue and expand the things that we are already doing. We offer, through our Office of First Year Experience classes at Ohio State, a Financial Literacy Week curriculum. We offer a wide array of course work and last year had more than 1,600 freshmen attend these courses. Very few of them were required to attend. We find that about 30 percent of our freshmen class really want to come to these literacy courses, and that is reflective of what Dr. Dowhower found in her study of our students in general. A lot of them really want this type of education.

We have also enacted a campus policy that limits credit card solicitation. We had a slightly different experience than Ms. Frishberg reported at Johns Hopkins because of our public institutional status. We discovered that by looking into some of the First Amendment limits, that we were required to have consumer-free speech, if you will, on our public campus under Ohio law and First Amendment restrictions according to our legal counsel. What we could do, however, was to limit the "time, place, and manner" in which students were solicited.

Our students, along with a key faculty committee, developed what they thought were appropriate standards for this to occur. For example, they felt that students solicited during the second half of the term were much more likely to borrow for holiday plans or for spring break. At the beginning of the term, available credit might really help them with more legitimate financial concerns. We have executed a Request For Proposal (RFP) for services and had a successful bidder who will adhere to our rules and the way in which the students are approached. It includes not having trivial gifts like T-shirts and 2-liter bottles of soda, but good educational materials to our students. Part of the contract also requires that they fund a debt counseling position in our student wellness center. We think that type of arrangement is working really well.

Our course work remains our biggest defense in the end for this whole problem. Even with our campus policy, we are aware that we cannot limit the degree to which our students are going to receive credit card solicitations through the mail. And we think that making educational literacy available is the right solution for this important issue.

We plan to continue our third week of every term Financial Literacy Week on the Ohio State campus and hope our subsequent class, which begins in just a couple of weeks, will be as interested in developing these skills.

Finally, I want to commend the work you are doing on this issue. I know from my daily work in seeing the small number of students who are in big trouble with their credit card issues, that financial literacy can be as important as the excellent academic opportunities we offer at Ohio State. We look forward to any opportunities to assist the Committee in looking into the issue of financial literacy and to continue to report on our very positive findings of making those available to our students.

Thank you very much.

Chairman SARBANES. Thank you very much.

Dr. Staten.

**STATEMENT OF MICHAEL E. STATEN
DIRECTOR, CREDIT RESEARCH CENTER
McDONOUGH SCHOOL OF BUSINESS
GEORGETOWN UNIVERSITY**

Dr. STATEN. Thank you very much, Mr. Chairman, and good morning to you and Members of the Committee. I am an economist by training, just as a bit of background. I am the Director of the Credit Research Center at Georgetown University. The center is a nonpartisan, academic research center devoted to studying the economics of consumer and mortgage credit markets. Over its 28-year history, CRC has generated over 100 research studies and papers, most of which examine the impact of public policy on credit markets. I have served as the Center's Director for the past 12 years.

As students head back to college this fall, a perennial debate will resume over the problems some of them have in handling their credit cards. Marketing research surveys indicate that about 57 percent of full-time undergraduates own a general-purpose card in their own name. By that I mean a Visa, MasterCard, Discover, or American Express, in their own name. From the sad anecdotes often portrayed in the news media, and actually mentioned today by some of the other panelists, one could get the impression that the majority of students are awash in debt, victims of relentless marketing by big credit card companies and incapable of controlling their own urge to charge. I do not doubt that any of the anecdotal stories are true. These things do happen. But, of course, the advantage of anecdotes is that they can show us what can happen, the disadvantage is that they don't show us how often they happen.

Along with my co-author, Professor John Barron at Purdue University, I recently completed a study for CRC at Georgetown that offers new evidence on student credit card usage, evidence that paints quite a different picture. The report provides a number of benchmark measures of college student card usage based on an analysis of over 300,000 credit card accounts randomly selected from the portfolios of 5 of the top 15 general-purpose card issuers in the United States.

Discussions of college student credit card usage in both the policy arena and the popular press have been based mostly on anecdotes and self-reported survey evidence. To our knowledge, the Georgetown study marks the first time account-level information has been pooled across major issuers to create a statistically reliable database for examining the actual usage and performance of credit cards marketed to college students. Consequently, the results should be helpful in grounding subsequent discussion on the facts rather than anecdotes.

I would like to share with you a few results from our study. More details along with a number of charts are contained in the text of my written statement which has been submitted to the Committee and the full report is available on CRC's website.

The analysis compares behavior across three types of accounts: Those opened through college student card marketing programs; those opened by young adults aged 18 to 24 through normal marketing channels, that is, cards they received that weren't through student dedicated marketing programs; and the last group are those opened by older adults over the age of 25 through normal

marketing channels. All the accounts that were analyzed in the study were opened between mid-1998 and early 2000, and were observed over a 12-month period between 2000 and 2001.

And I should note that the analysis follows a study plan that was originally proposed by the U.S. General Accounting Office during the fall of 2000 in response to a request from Members of Congress, but was never executed by GAO due to budget constraints. So it is basically their plan.

There is much evidence that college students are as responsible as the rest of us when it comes to their credit card usage behavior. And in fact, they are more sensible in some respects. Let me give you a few brief examples and refer you to my submitted testimony and the full report for more details.

The following can be said about student accounts relative to accounts held by the other two groups in our study. Student accounts have significantly lower limits and balances. The average balance of an active student credit card account in a given month is \$552, which is about one-third the size of the average balance for a non-student account of other young adults under age 25, and one-fourth the balance for adults age 25 and over.

Student accountholders do not take all the rope that is given them. By that I mean utilization rates on student accounts are on par with the other groups, despite having much lower limits. And for students who do have higher credit limits, that is, those with limits over \$1,000, the utilization rates are much lower than for the other two groups. Student cardholders take cash advances much less frequently. They pay any outstanding balance in full slightly more frequently.

Delinquency rates on both student accounts and other young adult accounts are higher than for older adult accounts. In a given month, 12 percent of active student accounts are past due, versus about 11 percent for other young adults under age 25, and 8 percent for adults 25 and older. However, among student accounts that have large balances, for example, those with the balances of greater than \$1,000, delinquency rates are substantially lower than for similar accounts held by other young adults under age 25.

I presume that this hearing on student financial literacy sought out information on how credit card products are being used and hence, invited me, because card usage is perceived as a barometer of how well literacy translates into practical skills and decision-making. So let me offer some conclusions based on my reading of these results.

If one were to gauge the level of practical financial literacy skills across these three groups, based on the way that they use their credit cards, then the data do not indicate a dramatic lack of sophistication among students regarding the handling of what is a very powerful payment tool.

I do see some evidence of underappreciation of the potential harm from sloppy payment habits. There is a very sizable chunk of student delinquencies that are on balances less than \$100, which suggests to me carelessness in handling their monthly paperwork.

I also see a higher rate of serious delinquencies among students—that is, by my definition, accounts 90 days or more past due—but in any given month, this amounts to just 3 percent of all

active student accounts compared to 2.4 percent for other young adults and 1 percent of other older adults. So, admittedly, the student rate is three times that of other older adults, but it is only 3 percent of all active student accountholders.

More importantly, there is evidence of learning by doing because the rate of serious delinquencies for students declines as the account matures, so that it is nearly identical to the rate for other young adults within 18 months of the accounts being opened.

In summary, 88 percent of student accounts pay as agreed in any given month. And 97 percent handle their accounts without serious delinquency in any month.

All of these findings are consistent with issuer statements that they establish student accounts with relatively low credit limits, with the expectation that the large majority of new young cardholders will learn how to manage a credit card, establish a credit history, and become longer-term customers.

The undergraduate experience gives young adults an opportunity to transition from life at home to life on their own. Learning personal financial management is part of that real-world experience.

A general purpose credit card offered with relatively low limits gives students an introduction to the most powerful and versatile payment device on the planet. I think of it as the "training wheels" approach to learning to use a credit card. Students learn that their wants usually exceed their resources and they have to manage that tension. They learn that a purchase made with plastic today and forgotten tomorrow can come back to haunt them at the end of the month with the arrival of the credit card statement. They learn the credit card company does not forget you made the purchase, nor will it forget if you do not pay. For those who choose to revolve, a balance that seems to fall far too slowly month after month kindles a new urge to find gainful employment during the summer or after graduation, and perhaps not let the balance rise again.

All of these lessons must be learned eventually. I believe it is better to learn them with the relatively small exposure permitted by the lower limits that are typical of cards obtained through college student marketing programs. Postponing the lesson until after graduation would raise the financial stakes and put young consumers at even greater risk.

It surely cannot be too difficult for our best and brightest youth to learn about cards and card marketing while they are in college. I know that artificial limits on card marketing to students have been proposed at various times around the country. But it seems to me that this is counter-productive to preparing them for life after graduation. The wiser course seems to be to facilitate student access to the information they need to make sound decisions about using credit and the importance of maintaining a good credit history, and then let them learn by doing.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much.

Before we turn to Jonathan Miller, I want to ask one question, Dr. Staten, about your methodology. In these comparisons you are making, how did you factor in, if you did, the number of credit cards the person may hold?

Dr. STATEN. Well, all the results are representative of the way a given account is used. Now some of these students may have had more than one account.

Chairman SARBANES. The figures seem to indicate that many of these students have lots of accounts. Some students then will have four or five accounts.

Dr. STATEN. That number is relatively small, I would suggest. The best surveys we have seen suggest the average number of cards held in their own name is 1.6. That comes from the student monitor annual marketing surveys.

Chairman SARBANES. Well, Nellie Mae studied this. They said, in 2001, among students with credit cards, the percentage who have four or more cards, is 47 percent.

Dr. STATEN. Senator, I am glad you raised the Nellie Mae study. Actually, if you scratch a little closer at that and take a close look at their sampling methodology, all of their conclusions are based on a restricted sample of students who did not qualify for other types of student loans, and who consequently applied to this special loan program that they had. I would argue that that is not a representative sample.

Chairman SARBANES. But your methodology does not allow for or take into account that a student may have multiple cards. Would that be correct?

Dr. STATEN. It tells us how a given account is used. But if you find a statistic that you are comfortable with that tells you the average number of cards students hold, simply multiply that by our average balance and that will tell you what the average student card debt is for any given student.

Chairman SARBANES. How about the people you are comparing them with? How many cards do they hold?

Dr. STATEN. You can get the statistics from Visa and MasterCard. They range from three to four cards for the adult population.

Chairman SARBANES. But we should factor that in when making the comparison, shouldn't we?

Dr. STATEN. I do suggest how you might do that.

Chairman SARBANES. If you compare a student who has four accounts with an adult who has one account in order to get an apples to apples comparison, you have to, in effect, accumulate the four accounts to compare with the one account, would you not?

Dr. STATEN. Well, I think we can accomplish where you are headed simply by looking at how an average account for each group is used. And then if you are interested in trying to determine what the total balance, what the total card debt of any particular individual is, simply multiply it by the average number of cards that that group holds. That is a valid way to proceed.

Chairman SARBANES. I take it that is saying yes to my question.

Dr. STATEN. I am not sure if it is saying yes, but I think I just described the valid way to proceed.

Chairman SARBANES. All right.

Senator DODD. Let me ask this. I am curious on the funding of these studies. Did the credit card companies fund this study?

Dr. STATEN. The credit card companies provided the data and provided the grant to support the study, yes.

Chairman SARBANES. Treasurer Miller.

STATEMENT OF JONATHAN MILLER

TREASURER, THE COMMONWEALTH OF KENTUCKY

Mr. MILLER. Thank you, Mr. Chairman. I appreciate this opportunity to testify today, and I am particularly grateful that you are shining the spotlight on the important issue of financial literacy among college students.

The first few weeks of college have always presaged many rites of passage—choosing a major, attending your first football game, rushing for a fraternity or sorority. But a new rite of passage has emerged recently for college freshmen on campuses across the country. Applying for your first credit card.

As you mentioned, Mr. Chairman, my Commission on Personal Savings and Investment studied this issue very closely and found many of the things Dr. Manning and the other witnesses stated today and they are included in my formal remarks submitted for the record.

Let me instead address how Kentucky has reacted to this growing problem of credit cards and debt on college campuses. And let me also echo Senator Carper that there is a lot of good work going on around this country, particularly from his Treasurer, Jack Markell, who has some outstanding programs in financial literacy.

My Commission took a hard look at this problem and we realized that we could not fix all of the problems created by financial illiteracy in the State in one fell swoop, we decided instead to gather our resources and focus our efforts on one community—Owensboro—a small city within a county of 90,000 residents.

In a few weeks, we will be launching Owensboro Saves—a project which unites the entire community's leadership from elected officials to school superintendents, from college presidents to constituency group activities, from labor leaders to Chamber officials and key employers. This public-private partnership will sponsor programming over the next year to promote better financial literacy among all residents of the region, of all ages and incomes. We will have seminars on various issues that concern Americans today.

However, we also more significantly hope to initiate permanent educational initiatives to improve the region's financial literacy. Working with the nationally recognized Daviess County School Superintendent, Stuart Silberman, we will work to ensure that every elementary, middle, and high school in the county develops sound, mandatory financial literacy courses for its students, to be in place by the 2003 school year. We would like this financial literacy education to be systematic and widespread. And to do so, we will build on existing resources and seek private funding and support from community businesses to refine curricula, publish educational materials, and train teachers on financial literacy instruction.

At the same time, we are working with officials from the four institutions of higher education in Owensboro to develop strong financial literacy curricula for college freshmen. It is my goal that every incoming student will be required to take a mandatory financial literacy course upon matriculation. In the meantime, we will develop with school administrators a code of conduct for credit card solicitation to include this mandatory education as a prerequisite for owning a credit card. We hope that this will not only work for

Owensboro, but also we would like to build a model we can use in communities across the State and perhaps across the country.

Our Commission believes that legislation was also necessary to combat the growing problem of credit card abuse on college campuses. In the last legislative session, Representative Susan Westrom introduced a bill that would have required Kentucky colleges and universities to develop codes of conduct for credit card solicitations on college campuses, prohibiting practices such as free gifts. It also instructed these schools of higher education to require mandatory debt education and counseling sessions for incoming students. There would be no ban on credit cards or even on marketing. We recognize that such solutions would be ineffective since anyone can be reached through the mail or off-campus, where there would be no ability to monitor. Rather, the universities, who supported this measure, would be charged with ensuring the best interests of their students.

Now our legislation passed through the State house unanimously and sailed through a Senate committee without opposition. But, mysteriously, the Senate leadership did not allow a vote on the Senate floor. This failure has become all too common across the country. A GAO survey revealed that in the past few years, most credit card reform legislation in State legislatures has died the same way—buried in a committee, without an opportunity for legislators to cast an up or down vote.

I am very hopeful that as the public becomes more aware of this problem, pressure will be too strong for legislators in Kentucky and across the country to abandon this needed legislation.

But I believe more legislative action is needed on the Federal level. Credit card companies are national, sometimes multinational conglomerates, and for any regulation to be effective, it needs to come from the U.S. Congress. These corporations have few ties to the universities' communities that they target. As a result, they are often unresponsive to local concerns.

That is why, Senator Dodd, I particularly applaud the work that you are doing. And as you devise your legislation, and hopefully, it will pass at some point, in some form, I believe that you should impose a real code of conduct covering the actions of credit card companies on all the Nation's campuses, prohibiting incentives such as gifts, and banning the more aggressive sales practices such as the recruitment of student groups that use peer pressure to complete applications. Credit card companies should be forced to determine before approving a card whether the student can even afford to pay off a balance. Teaser rates, low introductory rates that balloon into much higher rates after only a few months, should be restricted in marketing to college students.

Further, company disclosures should not be limited to the fine print of credit card agreements and solicitations, where fees and penalties are often hidden or obscured.

Still, we will only be able to fully combat this problem with a much more comprehensive effort of promoting financial literacy. Mr. Chairman, I urge the Members of this Committee and I urge the Congress as a whole to make financial literacy a high priority for American education. As you consider education bills, please consider making financial concepts a requirement of standards and

making training of teachers on financial issues a part of your funding initiatives.

While such Federal measures will be valuable, a Washington mandate will not solve the Nation's financial literacy problem. Ultimately, the solution will come in communities like Owensboro, Kentucky, or, Mr. Chairman, Gaithersburg, Maryland, where community leaders must join in a public-private partnership to better educate their citizens.

But it will require a concerted effort from those in the industry who profit from the accumulation of personal debt. In the process of my Commission's work, I have met with several representatives of the credit card industry. They have shared with me their desire to protect children from the unfair and aggressive practices of the so-called "bad actor" credit card companies who they say are a small minority of their industry. That is why I challenge the credit card companies to join us in our national effort to protect college students from credit card debt and promote financial literacy. Today's college students rarely review educational brochures and websites sponsored by the credit card companies, no matter how well-meaning or comprehensive they are.

Today, I challenge the credit card industry to put its money where its mouth is. I ask the companies to make a substantial monetary commitment to the development of mandatory financial curricula for our Nation's schools and colleges and to train teachers to provide effective instructions on these issues. We do not need to recreate the wheel. We simply should build on existing resources provided by the outstanding organizations that have been working on these issues. Funding can help us produce and publish materials that young people will read, understand, and apply to their financial behavior.

Ultimately, credit card debt is an issue of personal responsibility. But it is unfair to hold college students accountable for behavior when they are subjected to high pressure marketing tactics and do not have the financial literacy to make proper economic decisions. Once given proper education on credit card use and misuse, individuals will then be accountable for their own financial behavior. And by empowering our citizens with the skills to manage their finances effectively, we can help reduce our national reliance on social welfare programs and personal bankruptcy.

And maybe, a decade or so from now, there will be some new rites of passage for our Nation's youth. A rite of passage for every third grader to learn about the magic of compound interest and the importance of savings. A rite of passage for every eighth grader to study the stock market and American financial institutions, a rite of passage for every high school senior to take a course on family budgeting and income management. And finally, in some future September, before the football games, before the fraternity rituals, a rite of passage for every college freshman to be given solid instruction on credit and debt management to prepare them, as they leave their parents' nest, to build their own nest eggs.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much. I am quite impressed, actually, with the efforts that you have undertaken in

Kentucky in this regard and I strongly want to commend you for what you are trying to accomplish.

I regret that that legislation you were moving through the legislature stalled. But it also happens around here on occasion.

[Laughter.]

We just have to come back at it. I will yield to Senator Dodd. Again, let me underscore the leadership role that he has played on this issue, and the balance that is reflected in his legislative proposals, which seem to me to be very sensible and very pragmatic, as he said at the outset. He is not seeking to, in effect, eliminate the availability of the credit cards, but rather he is trying to put some safeguards around them, which will help us to avoid some of the more serious problems that result.

I must say, it would seem to me that responsible actors in the field should pick up on this and perceive it as an opportunity to address an issue in a sensible and a responsible way which allows legitimate economic activity to continue, but provides some safeguards against these abuses, which then lead to some of the very serious problems which Ms. Hart and Ms. Frishberg talked about earlier in their testimony.

Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman. Let me thank all of our witnesses for your preparation and your work.

I regret that my friend from Texas has left, Senator Gramm, who made some comments at the outset, where he talked about the ability of people who drive automobiles and enter military service, to be able to smoke or drink or enter college.

In the case of automobiles, obviously, most States today require some driver training program. I do not know of a single State that allows you just to go and operate a car without doing that. Certainly military service requires training. Certainly college requires exams and tests before you can get in.

And we all know, at least there is some way to restrain the use of smoking and drinking. We permit it at a certain age, but I think there is not an adult that I know of that would not do everything in their power to convince a young person not to begin those bad habits and the tremendous costs associated with it.

So to suggest somehow that people can do these other things, the implication being that there are not certain hurdles that we place in front of them before they are allowed to operate an automobile or enter into the military service of the country, makes the case, in a sense, of what we are talking about here when it comes to credit and the incredible life-long stigmas that can be associated with bankruptcy and with accumulation of debt at a very early age.

I am very grateful again for the evidence. I know that some of it is anecdotal, but I think anecdotal evidence helps make the case.

I do not know of a single one of you that offered that as the empirical data to support conclusions that something needed to be done, but rather, evidence of what happens when individuals do get themselves into some trouble.

Dr. Staten, I raised the issue about who paid for your study only because I wished you had identified that in your testimony. You talked about your study, but I think it is important that when we

do those things, that we identify that fact here. So, I was going through, hoping that it might be identified here in the data.

I want to give Dr. Manning an opportunity to rebut, if he can, some of the allegations made by Dr. Staten, or the suggestions made by Dr. Staten, when it comes to the relevant sense of burden between those younger individuals as opposed to those who are over the age of 25.

How do you respond to the suggestions made by Dr. Staten, regardless of who paid for the study. He challenges your study very directly.

Dr. MANNING. I think what is very critical here is we have to look at real students in real households.

Looking at accounts, which, at a cross-sectional analysis, we certainly have to link those accounts, we would have to say, we know that students open an account and they think that it miraculously disappears when they stop using it. There is so much misinformation on this topic.

I think it is also very important to understand that a student who is 20 that has a substantially high credit card debt and suddenly drops out of school or graduates, that that high credit card debt suddenly doesn't disappear as they become an adult. So there is a lot of statistical apparitions that can be manipulated when we present high or low empirical data on overall debt levels.

The other critical issue is I do not know if some of these credit card accounts have been paid off with their student loans. I have presented to you here a statistically representative sample that shows two-thirds of all of these students at a typical mid-size public university has paid their credit cards with their student loans.

To simply present to me an artifact of the point in time of a balance without looking at the relationship of how different forms of lending and borrowing are recycling through an individual's ultimate debt obligation upon graduation, it seems to me that all of us here concerned with graduation levels are going to be concerned with the accumulation of debt and how credit cards play a part of that accumulation.

Simply dividing credit card debt accounts independent of student loan accounts, independent from debt consolidation loans at the university credit union, independent of other sources of borrowing, really does not convince me that we can come to the types of conclusions that Dr. Staten presents to us.

Senator DODD. I will state again for those who may have missed it, I think credit cards have been a tremendously valuable asset for consumers in this country, and they have been very helpful to younger people. And under good management, obviously, they can provide tremendous opportunities. As the Chairman very graciously has pointed out, the legislation we have offered in no way would restrict those opportunities. It merely sets some conditionality here: First, that you have to demonstrate an ability to pay. I remember when I received my first credit cards, I had to prove that I could actually pay the debts. I know that is an archaic idea, but that was the requirement.

Chairman SARBANES. Imagine that.
[Laughter.]

Senator DODD. It wasn't just to fill out the forms. I had to show that I could actually pay the debt.

Second, have someone co-sign it with you, your parent, or someone else, which is not a typical hurdle. Or just to complete some credit counseling.

So, again, I emphasize the point. I happen to be a fan of credit cards. I think they are terrific, well managed, in responsible hands with knowledgeable people, can do wonderful things and open up wonderful opportunities.

In my conversations with the leaders of these companies who have come to see me to talk about my legislation, is a competition downward, in a sense. It is a race to the bottom.

You are disadvantaged, if you decide to demonstrate some responsibility and restrain the kind of activities you are involved in and your major competitors do not, you can get hurt by it financially because there is obviously loyalties that develop early on.

And so, from a corporate business standpoint, if there is not a level playing field in how we deal with all of this, you force, in a sense, business decisions for the companies to do exactly what their competitors are doing, even though they do not particularly like it, in order to succeed.

It seems to me the rationale for some national legislation, much as Mr. Miller has suggested, makes some sense. And I wonder if the witnesses might comment on the value of having some national legislation that would apply a standard across the board so then a responsible company, many of whom said they would like to do some of these things, from a business standpoint, cannot leave the competition an open field without them being allowed to play in it. So I wonder if you might comment on that particular perspective.

Also, I understand about the companies. What really has been more bothering to me than the companies is the universities. I am really stunned in a way that university officials have become allies with some of the most abusive behavior here and become the beneficiaries financially of their own students accumulating the debt, since they acquire a certain financial benefit very directly, as I understand it, with the amount of credit cards that students assume and the debt that they accumulate. I am stunned that colleges and universities would allow themselves to become co-conspirators, if you will, in this accumulation of debt, which does such disadvantage to their own students.

And I would like you to comment on those two things.

Ms. HART. May I respond, Senator?

Senator DODD. Yes.

Ms. HART. I understand that there are certainly problems among colleges and universities of the type that you describe. I think that there are a larger group who fit into Ohio State's mode of saying, for example, when we issued an RFP, understanding by State law that we had to have at least one credit card company that we could then govern, we specifically avoided having any financial relationship with the level of debt of our students. We saw that as absolutely antithetical to the many efforts we were extending for good financial education for our students.

Senator DODD. I commend you. But you and I both know that there are universities——

Ms. HART. Exactly. I just think that——

Chairman SARBANES. You would not assert that all colleges and universities are following best practices in this respect, would you?

Ms. HART. Not at all. I feel that a majority do and that issues like this hearing itself help promote wider understanding.

I think, honestly, that some of these practices aren't even well enough known within the institution. And especially, we, like any other entity, respond very directly to the needs of our consumers. And as I have said, we found in just the last year that this is the leading financial issue that parents present to us. We are in the business of responding to those educational initiatives and then aligning our practices.

We really hope that many institutions will join the kind of model that we are setting forth and we intend to be a best practices institution to try to promote that, where it is not well understood among any collegial institutions.

Chairman SARBANES. I would question your assertion that a majority of the educational institutions have evolved to the point where they are following the best practices that you are following at Ohio State University.

Ms. HART. An important matter to study, perhaps.

Chairman SARBANES. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman.

And to our witnesses, I do not understand well the legislation that Senator Dodd has apparently proposed, but I understand it has three aspects to it. One of those is the notion that parents would essentially co-sign with an agreement.

Senator DODD. That is one of the options. They would prove their own ability to pay or take a credit course to show some financial education. Either one of those three you can do.

Senator CARPER. I do not know. I had to be out of the hearing for a bit and you may have each commented on his proposal. I heard Treasurer Miller commend Senator Dodd for his proposal.

Let me just ask the other witnesses your take on what Senator Dodd has suggested.

Dr. MANNING. I would like to put a little background on this.

Senator CARPER. And I would ask you not to take much time.

Dr. MANNING. Of course. The best practice of the industry until the late 1980's was parental co-signatures. That was a decision that the industry dropped in the late 1980's.

The other point is there is a misconception somehow that college students are singled out. The reality is that the industry has created a two-tiered system in its underwriting. That is, if you are a college student and you make \$5,000, you can get \$20,000 in credit cards. If you are a part-time employed 18-year-old making \$4,000, you may get rejected.

So, I think one of the key points is we need to make it clear, what is their standard for underwriting and what is their expectation of being repaid?

The biggest problem I find on college campuses——

Senator CARPER. Answer my question, please.

Dr. MANNING. Is that the credit limit is the problem. If we could get a reasonable limit of a student that would have to be adhered

to, say \$500 has been proposed, then we wouldn't hear these problems of students saying, I had no idea I suddenly owed \$10,000.

Senator CARPER. Thank you.

Senator DODD. He supports my bill.

[Laughter.]

Senator CARPER. Thank you for that interpretation.

[Laughter.]

Ms. FRISHBERG. While students can get credit on a student loan without a co-signer, they cannot get credit on a private loan without a co-signer.

We encourage our students if they are going out for private loan funding, to make sure they work with their families to figure out the best type of loan to take, whether it is the parent taking the loan, which is our primary option, or them taking a co-signed loan with their parent or someone who earns at least \$15,000 a year.

We are curious as to why the credit card industry has a different standard for college students than they do have for anyone else of their age group. We know it is because they want good customers. But we certainly believe that there is nothing wrong with requiring a co-signer, if you have one available.

My fear is that for students who do not have a family member or a financial security blanket, we do have quite a few of our students who are independent of their families and do not have that fall-back, that there be another way for them to prove their credit-worthiness and receive a credit card. And the bill does that as well.

Senator CARPER. Thank you.

Ms. HART. I think especially the point about having financial literacy a possible requirement, one of the three. In this world of Internet, delivery of good counseling to students, we use that extensively. We are experienced in that. And so, I think it is very feasible to make that a widely available option so that the students, like those that Ms. Frishberg mentions, who do not have those other options readily available, could have a very good, reasonable counseling mechanism through Internet services.

We use that extensively in our student loan education today and find, our data suggests that it is very effective, that students really do go through those mechanisms, and some would suggest, learn better because they choose when they receive that education.

Now it would precede certain events like the credit card. It does in student loans. But they are choosing to delve into that at 10 at night, which seems to be our most popular time, is often better learning than saying you are going to do it at Wednesday on 10 p.m. So, I think the mechanisms make it very feasible to deliver that education.

Senator CARPER. What is 10 p.m. is the most popular time for?

Ms. HART. For Internet usage.

Senator CARPER. Thank you.

Ms. HART. Where our charts go off between 10 p.m. and 2 a.m.

Rather than having to come to a given session in the usual pedagogical style, our students, for functions like this, really prefer an Internet service. And our research suggests that they learn very well in those mechanisms, basic lessons like financial literacy, that they are well delivered in that way.

Senator CARPER. I remember as a freshman at Ohio State, and this really dates me, that 10 p.m. was when you had to have the girls back in the girls' dorms.

[Laughter.]

So 10 p.m. had a different connotation.

Senator DODD. There were no girls in the dorms anywhere when I was there.

[Laughter.]

Chairman SARBANES. Things have changed.

[Laughter.]

Senator CARPER. They changed by my senior year, in 4 years, I will tell you.

[Laughter.]

Mr. STATEN, your take on what Senator Dodd has proposed?

Dr. STATEN. One of the proposals I find intriguing. The other two I am somewhat skeptical about, the two being requiring the co-signer, and documenting income. And the only reason I say that is because we know when those are required of other accountholders, they do not necessarily prevent that accountholder from getting into trouble with the card.

In fact, what the co-signer does is provide a safety net, so the credit card company knows it is going to get paid by somebody. But there is no necessary linkage between having a co-signer and that co-signer knowing how the person is actually using the card. I would argue the same thing with the income requirement. Incomes come and go, and we have seen that required in other types of loans, and people still get into default trouble with those loans.

Senator DODD. Why do they require them for other people?

Dr. STATEN. I am sorry.

Senator DODD. Why do they require income information, then, for someone who is not a student?

Dr. STATEN. I would suggest that with students—I am just speculating now—there are two factors involved. One is, they know this is a promising young customer who has an income prospect in the future relative to somebody the same age that is not in college. Two, they have still have half a foot at home. And so the card companies know that the risk is probably lower because somebody's going to cover that bill.

Senator DODD. Well, wouldn't it be helpful, then, if that person at home who is going to cover it, might have some say in it?

It is a parent. We are talking parents now.

Dr. STATEN. Yes. But requiring a co-signer won't guarantee that.

Senator DODD. But the parents might say, wait a minute, before you go off, we are going to set limits here. We are going to do some other things before junior signs up for \$10,000 worth of credit.

Dr. STATEN. And I do not argue with that. But let me suggest to you that there is a program that I have seen announced just in the last few weeks. One of the issuers, I do not know if it is Citi or somebody else, is starting to market a program where the parents will actually receive copies of the statements as well, which is something I gather is not typical. And so, you can actually foster that learning process there and maybe it is within the context of a co-signer. But that is a product that has already hit the market.

The last item, completion of a counseling course, I would just echo that while I think this is generally a good idea, I suspect that there are implementation problems with actually getting proof of a certificate of completion of a course, and that it might be a far better effort devoted to creating innovative ways to make information available to students. And having a card issuer present on campus, whether it is through the Internet or whether it is with seminars or whatever, I think is probably a good thing.

Mr. MILLER. If I can just add to this. The sense of urgency that I see with today's economy is that, as Senator Dodd mentioned, there is a race to the bottom right now with credit card companies struggling to win this competition, that some of the more ethical companies would like to avoid, I think that if we had some better standards. And there is a race for any dollar that these university presidents can find to pay for important school services with State budget cutbacks.

That is why that legislation is urgently needed. But, I would expand it. I would ask for Congress to join the efforts of Treasurer Marquel, myself, and Treasurer Napier in Connecticut, to promote financial literacy across the country. The credit card problem is a symptom of a great problem of a financial illiteracy of America. And we are only going to hit that if we have programs in all the schools going from colleges all the way down to grade schools.

Senator CARPER. Good.

Mr. Chairman, thank you.

Senator DODD. I have tried this in a lot of different ways. Again, we run into the same problem.

I want to commend you, Mr. Miller. You have done a great job in Kentucky. I am a graduate of the law school of the University of Louisville, so I have a lot of affection for Kentucky and I enjoyed my years down there very much.

I am very impressed with the work of the University of Louisville. There was a study done there or you had a seminar. There was some effort there. So, I commend you for that. And maybe that is the way to approach this. We have the higher education bill up in the next Congress, the reauthorization comes up. Instead of approaching this from the bankruptcy side, maybe one of the angles would be to approach it from the higher education side.

There is a lot of Federal dollars that go out to institutions. And in return for some of those Federal dollars, we will try to see if some discipline can be exercised on campuses in terms of responsibility. Maybe coming from that angle of it, then that would be a better way to get the companies to respond to this and the universities to respond.

We should talk to you about that. In fact, I will keep in touch and have staff talk to you about what you have been doing in Kentucky and how we might do something on the national level.

Mr. MILLER. I would love to help.

Chairman SARBANES. Would the two university people briefly describe the atmosphere that exists on registration day or registration week, with respect to the dispensing of credit cards and the freebies and all the rest of it, before you brought it under control.

Maybe Dr. Manning should address that because I gather, your universities have restrained these practices. But maybe you could

describe it in its unrestrained form, to the extent you know about it, and then describe it in its restrained form.

Ms. FRISHBERG. If I could just speak to the item that Senator Dodd just mentioned about the universities being in some way responsible through the Higher Education Act.

I think that there is another, very important entity that can be affected through the Higher Education Act, and that is the student loan lending community themselves. Often, they do not know what the other side of the house is doing with their databases.

Senator DODD. Good idea.

Ms. FRISHBERG. And again, we take issue because we have been very responsible actors in banning both the tabling as well as the marketing of our affinity card to our current students.

I am not sure that it is rampant across campuses that they are not taking this responsibility. But I do not work on a public university campus, so, I do not know what that is like.

The carnival of what goes on during registration is not just the credit card vendors, but it really is a carnival atmosphere, purposefully so. It is supposed to be fun. You are moving in and you are getting to meet people and you are learning things.

There used to be multiple tables set up all over campus, no matter where you walked. People coming out and handing you CD players and Walkmen and T-shirts and mugs and please sign up. It was your peers. It was your fellow students.

Chairman SARBANES. Well, they are working on a commission basis, aren't they? Don't they come in and if they can get a certain number of people to sign an application, then they get some kind of bonus? Like they get a free vacation trip or maybe they get a record player set or something. Isn't that the case?

Ms. FRISHBERG. As I understand, that's how they make their money, which is why we have not had them on campus for 6 years.

Chairman SARBANES. Record player is not the right word.

[Laughter.]

I am as bad as Senator Carper.

Senator CARPER. When they close the dorms at 10 p.m., they get our their record players.

[Laughter.]

Ms. HART. I can tell you that from our survey of our students about credit card practices, that more than a third of them found the manner in which they were solicited by credit card companies very problematic. They also felt that it led to a great distrust of the quality of information they were given by those companies relative to things like interest rates.

This was a key factor in our decision to really try to limit especially the manner in which our students were approached for credit cards. And as I said, we found that permissible and we have done that by an RFP that really restricts not chasing a student across the oval to fill out a credit card application because of one's incentives, but to try to provide a reasonable vehicle for good credit card use and information about educational services that support that good use. Students definitely found it very problematic.

Senator DODD. At Johns Hopkins or Ohio State, do you receive a financial benefit from the credit card companies? What do you receive at Ohio State? What is it?

Ms. HART. I am sorry. I do not know, Senator, what the response was to the RFP. That is an important question and I would be glad to research that and tell you about it.

I do know that what we have done with the proceeds, which was a question here, it used to be the case that our student organizations received a benefit from sponsoring a credit card company on campus. And so, we have used the proceeds from the RFP to support those student activities, which are often related to community service and good works.

Senator DODD. Unrelated to the amount of debt.

Ms. HART. Not at all. Not at all. It has to do just with numbers of students. As I said, that was a very important principle that we avoid any relationship to the level of debt or even the number of students who ultimately took out a card.

Additionally, as I said, we asked in the RFP and got universal response, positively, that some of the proceeds are dedicated to adding to the debt counseling that we do on campus.

There is a position in my office that is fully funded by the university and the credit card proceeds will fund another credit counselor in the student wellness center because not all students think of the financial aid office as a source of this information. And we think by teaming up, we have done a very commendable job of using those proceeds responsibly.

Mr. MILLER. Mr. Chairman, if I could just add, too.

We took testimony in our Commission about some of these practices and found that really it was some of the students themselves that were the greatest violators of what we would think would be ethical practices.

Students who are hired by the companies, paid a quota based on how many applications they complete, going into dorm rooms, chasing fellow students around campus and otherwise doing things that put a lot of unfair peer pressure, saying, "I really need your help in funding our parties at the fraternity. So please fill out these applications for us."

Of all great ironies, when we held this event at the University of Louisville, which has an exclusive, multimillion dollar marketing contract with a particular company, we looked at the bulletin board right outside of the hall in which we were holding it, and there were literally dozens of flyers up representing several different credit card companies who were not supposed to be marketing on campus, right on the bulletin board right outside our hearing.

So these practices really need to be examined on a level with establishing a code of conduct that these companies need to follow.

Chairman SARBANES. Good. Well, this has been an extremely helpful panel. We appreciate your testimony and the effort that went into it very much.

I think we have had an opportunity here to air a number of these important issues.

The hearing is adjourned.

[Whereupon, at 12:10 p.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER J. DODD

Thank you, Mr. Chairman, for holding this hearing in such a timely manner as, across our Nation, students return to college campuses. The subject matter of this hearing—improving the financial literacy of our Nation's youth—is an extraordinarily important one.

Many, if not most, incoming freshman are unprepared to handle the ordinary financial obligations that come as a result of entering college. For the first time, many graduating high school seniors and incoming college freshman are presented with new opportunities and confronted with difficult decisions that will affect them for the rest of their lives—particularly access to large amounts of credit, primarily through the use of credit cards. Most new students lack the financial sophistication necessary to handle the terms and conditions associated with credit card use.

Making credit available to help finance the pursuit of higher education is something we all recognize as vital. However, the aggressive marketing practices of some credit card companies and the failure to ensure that college students recognize the long-term consequences of incurring these debts is a serious and growing problem.

The fact of the matter is that financial institutions view incoming college freshman as fish in a barrel for purposes of credit card solicitations. Financial institutions have becoming more concerned with “branding” than forming responsible financial relationships with new customers. They are more interested in luring students with offers of low minimum payments, free T-shirts, or other giveaways than caring about whether their prospective customers can reasonably handle their credit obligations.

The trends relating to credit card use among college students are alarming. Over 80 percent of undergraduates have at least one credit card. Nearly 50 percent of college students carry four or more credit cards. According to the Department of Education, the average balance carried by these students is more than \$3,000. College students are getting into more and more debt at a faster and faster rate, and they are increasingly facing the consequences of the debt they incur as a result of the barrage of credit card solicitations. In the year 2000, 150,000 young Americans under the age of 25 filed for bankruptcy protection. In fact, the fastest group of bankruptcy filers are those people who are 25 years of age or younger. A lot of these young people have been or will be forced to drop out of school to pay their debts. And while personal responsibility is a critical component of avoiding these problems, so is corporate responsibility on the part of credit card issuers who lure students into obtaining multiple credit cards without any regard for their ability to repay a debt. That kind of corporate irresponsibility must stop. Educators, parents, students, and credit card issuers must closely examine and must address the critical need of improving the financial literacy of our Nation's youth to help prevent against the rising tide of college age persons forced to declare bankruptcy.

Earlier in this Congress, I introduced the Underage Consumer Credit Protection Act of 2001. It would require that credit card issuers, prior to granting credit to persons under the age of 21, ensure that their new customers have one of the following: A co-signature of a parent, guardian, or other responsible party; an independent means of financial support for repaying the debts they incur; or the completion of a certified credit counseling course. This is modest legislation that would take a significant step toward protecting young people from those who prey on them with false promises of easy credit.

PREPARED STATEMENT OF SENATOR JON S. CORZINE

Mr. Chairman, I want to thank you for holding this hearing on an enormously important subject—financial literacy. It is a subject of great interest to me, and I am grateful for your attention to the many facets of this issue, focusing on the unbanked, underserved communities, older citizens, and predatory lending.

The issue that we will discuss today—credit card usage by college students—is as important as they get. And it is a particularly frightening prospect for me as the father of a soon-to-be college freshman.

By now we have all heard the shocking anecdotes and startling statistics underscoring the lack of financial literacy that is pervasive throughout all age, races, and socioeconomic segments of our society. Regrettably, our young people are but another glaring example of that void. According to the Americans for Consumer Education and Competition the vast majority of high school students—82 percent of them—failed a fairly standard personal finance quiz.

It is a relatively safe bet that now an even greater number no less about what “APR”, “simple and compound interest”, or a “revolving line of credit” means.

To be certain, there are numerous benefits derived from placing credit cards in the hands of responsible college students. They can help defray the financial pressures on students, and parents, who would otherwise have difficulty coming up with the costs of going to college—money to purchase books, paying skyrocketing tuition costs, and even that much-needed pizza during a long study session.

But there are pitfalls associated with placing these cards in the hands of those who lack basic knowledge about finances and credit, or the maturity to handle a newfound “source of wealth.” According to the GAO, 55 percent of college students obtain a credit their freshman year. That is an enormously powerful tool in the hands of a 17- or 18-year-old.

One concern of mine is the intense marketing aimed at college-aged students going on at colleges and universities all across America by financial institutions and other credit card issuers.

Today, students find themselves barraged by credit card solicitations via mail, e-mail, and campus visits by credit card representatives who offer everything from free T-shirts to Frisbees to water bottles to get students to apply for their cards.

As a result, some schools and some States have sought to restrict credit card solicitations on-campus. In doing so they seek to reverse the growing overall trend of credit card debt facing undergraduate students—where average credit card debt has increased by almost 25 percent over the past 5 years.

Left unchecked, this growing debt threatens to severely undermine the home buying, renting, and employment futures of an entire generation. That is why it is so important that we carefully examine this issue.

I thank you Mr. Chairman for seeking to do so today, and thank the witnesses for providing us with their testimony. I would be remiss if I did not commend Senator Dodd for his legislative efforts in seeking to protect students, and their parents, from the accumulation of large credit card debt as well.

PREPARED STATEMENT OF SENATOR DANIEL K. AKAKA

Thank you, Mr. Chairman. I appreciate your conducting this hearing today and all of your efforts to have financial literacy be such an important focus of the Banking Committee.

Many college students are not adequately prepared to make informed financial decisions in situations that they will face during and after college. Students often have to borrow heavily to help finance their education and have limited means provided by part-time jobs. While experiencing these financial difficulties, they are also provided with countless opportunities to easily obtain credit cards. Thus, credit card debt can quickly add up for the students who do not know how to responsibly use credit.

This lack of knowledge often leads to a large debt burden for students that further complicate their future financial situations. Many students may not realize the importance of keeping their own credit clean so as to not preclude future financial opportunities. For recent graduates, debt burdens and poor credit histories can make it even more difficult as they start out on their own and attempt to buy a car, rent an apartment, or purchase their first home.

College students who make uninformed financial decisions are also likely to continue to make the same mistakes as they get older. They may not fully understand the power of, for example, compound interest and may fail to save and invest sufficiently for retirement.

Today, this Committee must examine the actions necessary to help ensure that college students are able make informed financial decisions during and after college. Financial literacy among all Americans, not just college students, needs improvement. I look forward to working with my colleagues in developing comprehensive approaches to increase financial literacy among citizens.

I thank the witnesses for appearing today and I look forward to your testimony. Again, thank you, Mr. Chairman.

PREPARED STATEMENTS OF SENATOR JIM BUNNING

Mr. Chairman, I would like to thank you for holding this hearing, and I would like to thank all of our witnesses for testifying today. I would especially like to welcome Jonathon Miller, the Kentucky State Treasurer here today.

Financial literacy is a very important topic. I think all Americans should brush up on this issue. From elementary school, to high school, to college, to young fami-

lies, to college parents, to retirees, many Americans are making important financial decisions without the tools that might allow them to make the best decision. We must make information and education available to those making financial decisions.

Everyone knows how easy it is for college kids to get credit cards. They have T-shirt giveaways, and bag giveaways. Students are inundated with junkmail. They get solicitations in the bags they carry their new books home in. It is much easier to get credit cards than to learn about how credit cards work and what responsibilities come with them.

However, restricting credit is not necessarily the answer. Many students use credit cards to charge their books and tuition. They get airmiles that may get them a free ticket home for Christmas. They get cash back. And some, especially those who work, would have a much more difficult time being able to pay for school without credit.

I think most 18-year-olds understand credit cards are not free money. They do realize there are some responsibilities that go along with the card and most know what an interest rate is.

I think we can do a lot to help financial literacy and I do think some companies take advantage of naive kids. I just want to make sure we do not do anything that would deny credit to those who need and understand it.

Once again, I thank our witnesses for testifying today and I look forward to hearing from you.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Proper Financial Training Can Curb Rising Credit Card Debt Among College Students

Stronger consumer protections are needed to prevent college students from getting trapped by credit card debts that their limited income and work schedule prevents them from escaping, Senator Debbie Stabenow, a Member of the Senate's Banking, Housing, and Urban Affairs Committee, said today.

Stabenow's comments came as the Committee prepared to take up the issue of credit cards and students, an issue made more critical by recent studies revealing that 80 percent of all college students carry credit cards and that their average debt was more than \$2,300. More than 25 percent of those students had debts exceeding \$3,000.

"How can a typical student—who is working part-time or perhaps not working at all—ever hope to pay off a \$3,000 credit card debt?" Stabenow asked. "In fact, they probably cannot. Instead, they may well find themselves making minimum payments of mostly interest with little hope of getting out of debt."

Stabenow, who has co-sponsored legislation that would set guidelines for issuing credit cards to students, said the problem needs to be addressed both through legislation and by educating young people in financial matters before they leave high school.

"Not only is credit card usage among college students increasing, but the general financial knowledge of that same group is decreasing," Stabenow said. "We learned recently how serious this problem is, when a study revealed that 82 percent of high school students failed a 13-question financial quiz."

The quiz addressed such financial basics as interest rates, savings, loans, credit cards, and calculating net worth.

"Schools can teach a broad variety of social skills, such as dealing with alcohol abuse and getting along with roommates," Stabenow said. "I believe they can also teach enough financial fundamentals that their graduates can avoid stepping out of commencement services and stepping into debt."

Stabenow is co-sponsor of S. 891, the Underage Consumer Credit Protection Act.

PREPARED STATEMENT OF ROBERT D. MANNING, Ph.D.

CAROLINE WERNER GANNETT PROFESSOR OF THE HUMANITIES
ROCHESTER INSTITUTE OF TECHNOLOGY

SEPTEMBER 5, 2002

I would like to thank Chairman Paul S. Sarbanes for providing this opportunity to share my views with this Committee on the increasingly important topic of

consumer debt among college students and the lack of financial literacy/education programs for America's financially vulnerable youth. In addition, I applaud the legislative initiatives of Senator Christopher Dodd, who has championed credit card marketing restrictions on college campuses along with critically needed financial education programs, and Senator Charles E. Schumer's efforts to protect consumers from deceptive marketing and contract disclosure practices of the credit card industry. The twin issues of rising consumer debt and shockingly low levels of financial literacy among our youth have grave implications to the continued economic well-being of the Nation—especially as Americans age into debt. For these and many other reasons, I commend the Committee for accepting the daunting task of examining these serious problems.

As an economic sociologist, I have spent the last 16 years studying the impact of U.S. industrial restructuring on the standard of living of various groups in American society. Over the last 11 years, I have been particularly interested in the role of consumer credit in shaping the consumption decisions of Americans, as well as the role of retail banking in influencing the profound transformation of the U.S. financial services industry. In regard to the latter, I have studied the rise of the credit card industry in general and the emergence of financial services conglomerates such as Citigroup during the deregulation of the banking industry beginning in 1980. In terms of the former, my research includes in-depth interviews and lengthy survey questionnaires with over 800 respondents in the 1990's. The results of this research are summarized in my recent book, *Credit Card Nation: America's Dangerous Addiction to Consumer Credit* (Basic Books, 2001). More recently, I have collected survey data from a case-study of a mid-sized public university based on a representative sample of nearly 800 college students in 2002. Some of the key findings of the study are reported in this testimony. In addition, I have become actively involved in the national movement to improve the financial literacy/education of our youth. My work with colleges, universities, and student loan organizations has inspired my own Internet-based financial literacy/education program at www.credit-cardnation.com as well as my next book which offers practical financial information for college students and novice credit card users.

Reality Bytes: The Triple Witching Hour Haunts Recent College Graduates

For recent college graduates, the stark realities of coping in the "real world" and pursuing a career in the new economy are compounded by their unprecedented levels of personal debt. To apply a Wall Street analogy, the "Triple Witching Hour," record levels of student loan and credit card/consumer debt have coincided—for the first time—with the worst job market in over a decade. Indeed, as long as America's longest economic expansion in history continued unabated, college students were lulled into a false sense of financial security by university administrators and credit card/finance companies which led to the amassing of enormous personal debt obligations. A generation that grew up with TV's *Friends*, whose mid-town NYC lifestyle belies their modest professional incomes, was unprepared for the bursting of the Nation's economic bubble in spring 2001. Afterall, "recession" was not a part of their life experience and denial of self-gratification is mass-marketed by Madison Avenue as "old school."

More significantly, declining real household incomes in the early and mid-1990's sharply reduced family financial contributions to college expenses while the long-term decline in public financing of higher education shifted student economic strategies from savings, grants, and part-time employment to reliance on Federally subsidized student loans. As a result, median student loan levels have skyrocketed over the last 25 years—from about \$2,000 in 1977 to nearly \$7,000 in 1990 and doubled again today. In 1996, the College Board reported the average public university student graduated with \$11,950 of loans in 1996 (a 70 percent increase from 1993) while graduates of private colleges averaged \$14,290 (a 43 percent increase from 1993). This trend is mirrored in the recent surveys by Nellie Mae. In 1991, the student loan debts of its clients (survey data comprised of 65 percent undergraduate and 35 percent graduate students) averaged \$8,200 and jumped to \$18,800 in 1997 albeit partially due to the rapid increase in graduate (professional) student debt.¹ Today, public school graduates can expect nearly \$15,000 and private school graduates over \$18,000 in student loans. Clearly, the student loan industry and higher education administrators have encouraged and abetted the record levels of student loan debts with unrealistic expectations of high paying employment with job and pension security.

¹ Sandy Baum and Diane Saunders, *Life After Debt: Results of the National Student Loan Survey*, Nellie Mae, Braintree, MA, 1998.

The rising cost of higher education and intensifying pressures for “competitive consumption” on America’s college campuses contributed to the sharply rising demand for “plastic” money among our youth—without extolling the necessary financial education programs. At the onset of the deregulation of the U.S. financial services industry in the early 1980’s, extending credit to college students was viewed as a risky strategy. College seniors with “one foot out of the door” were perceived as relatively low financial risks and typically received credit card offers as they approached their 21st birthday; most offers, however, were for gas and retail rather than “universal” bank cards. The exceptions were student with full-time jobs or whose parents were willing to co-sign the revolving loan contract. By the late 1980’s, banks began to saturate their middle and working class revolving credit card markets (based on prevailing underwriting criteria) and began to aggressively pursue the college student market by relaxing the industry’s voluntary parental co-signature requirement for students under 21 years old. This was because industry executives realized that students would use their summer earnings and college loans to pay for their credit card debts. Furthermore, they were even willing to ask their parents to assist in paying their credit card bills. Even so, when U.S. Congressman Joe Kennedy convened the “Kiddie Credit Card Hearing” before the Subcommittee on Consumer Credit and Insurance in March 1994, student credit cards typically featured introductory limits of \$200 to \$300 and it was rare to find a student that amassed over \$5,000 in credit card debt in the early 1990’s. In my own research on this period, high credit card debt levels were more likely accumulated by students immediately after graduation rather than during college matriculation. This was largely due to the difficult job market of the early 1990’s and greater willingness of banks to extend higher credit limits after leaving school.²

The enormous profitability of consumer credit cards, together with the cross-marketing strategies of financial services conglomerates in the mid- and the late-1990’s, have produced competitive pressures to recruit new clients at an increasingly younger age. The result is that the overall proportion of college students with credit cards has risen sharply—from about one-half in 1990 to over three-fourths today; my studies of students at universities in the Metropolitan Washington, DC area range from 77 to 85 percent. Significantly, this means that college and even high school students are being socialized to perceive consumer credit as a generational entitlement rather than an earned privilege. For most American students, credit card “membership has its privileges” before commencing a full-time job and adhering to a financial budget. This fracturing of what I refer to as the traditional “cognitive connection”—where one’s standard of living is defined by one’s household income—is a radical departure from America’s Puritan influenced cultural attitudes toward consumer credit and debt where satisfactorily abiding by a household budget (fiscal responsibility) is rewarded with more consumer credit.³ The availability of greater levels of consumer credit at an earlier age without accompanying financial education is a financial windfall to the credit card industry and its associated networks of retailers including college and university administrators who reap multi-million dollar exclusive marketing agreements. This is because the largest 250 public universities account for over two-thirds of college students at 4-year institutions. For instance, the University of Tennessee signed a 7 year contract with First USA in 1998 which guarantees at least \$16.5 million while the University of Oklahoma received a \$1 million signing bonus. It is noteworthy that none of the “royalties” from these lucrative contracts have been used to fund financial literacy/credit card education or debt consolidation programs.⁴

Over the last decade, the two most noticeable trends in the marketing of credit cards to college students is the progressively earlier age of opening the first credit card account and the resulting rise in personal debt associated with consumer credit cards. Although it is not my intention to detail the flawed methodology of credit card industry financed studies, which I have reviewed elsewhere, it is important to recognize the complex dynamics of student consumer debt.⁵

²Robert D. Manning, *Credit Cards on Campus: The Social Consequences of Student Debt*, Consumer Federation of America, Washington, DC, 1999 and Robert D. Manning, *Credit Card Nation: The Consequences of America’s Addiction to Credit*, Basic Books, 2000.

³Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit*, Princeton University Press, 1999 and Robert D. Manning, “Charging for Credit: Convenience Users and the Ideology of the Moral Divide,” Chapter 4 in *Credit Card Nation: The Consequences of America’s Addiction to Credit*, Basic Books, 2000.

⁴For specific terms of the contract, see Robert D. Manning, *Credit Card Nation: The Consequences of America’s Addiction to Credit*, Basic Books, 2000, p. 348.

⁵Robert D. Manning, *Credit Cards on Campus: Current Trends and Informational Deficiencies*, Consumer Federation of America, Washington, DC, 1999.

First, an accurate estimate of student consumer debt levels and their associated social consequences require a research methodology that “tracks” or follows a student class cohort from orientation to graduation. This will capture students who have dropped out of school due to high debt levels and are not subsequently interviewed since they are no longer included in the matriculating student population universe. This methodological issue was noted in the highly flawed 2001 General Accounting Office (GAO) report on this topic.⁶

Second, average student debt levels must be estimated by each class cohort (freshman through senior) rather than a institutional average that combines low freshman debts with high senior debts and thus underestimates the debt obligations of college students when they leave school. The real issue is how much debt young adults have incurred upon graduation NOT an average for the overall student population at a single point in time.

Third, student debt levels must examine the dynamic smorgasbord of all different types of personal debt. For example, my 1999 study was the first to explore the relationship between student loan and credit card debt. That is, the survey questionnaires of industry financed studies neglect to ask students whether they use college loans to pay their credit card debts and thus miraculously erase substantial portions of revolving credit card debt. Unlike the accounting magic of Wall Street, personally assumed debt of average Americans must be eventually repaid, regardless of the accounting category. As a result, my research suggests that more accurate estimates of student debt require in-depth interviews throughout the collegiate career of student respondents. Significantly, I am not aware of any credit card industry-sponsored study that is based on in-depth interviews with real-life college students.

Credit Cards on Campus: Hunting in a Baited Field?

Academic and industry-financed studies agree that students are receiving credit cards at a progressively earlier age. For instance, the Student Monitor, which is funded by contracts from the banking industry, reports that its survey of 100 schools (1,200 interviews) in 1994 found that 11 percent of its student credit cardholders opened their accounts while in high school and 20 percent after high school but before attending college. In 1998, these proportions rose to 15 percent and 22 percent, respectively. Overall, the proportion of students that received their first credit card after their freshman year of college declined from 34 percent in 1994 to 19 percent in 1998. Dr. Michael Staten and Dr. John Barron’s new study of credit card accounts opened between January 1998 and May 2000 (conducted under the auspices of the Credit Research Center at Georgetown University with its longstanding financial ties to the banking industry) reports that the median age of students when they opened their credit card accounts was 19.9 years old. Since the sampling unit is credit card accounts rather than students, it is not possible to identify the age of the first credit card account or the total credit card debt of an individual student with precise accuracy since the average student has at least 3–4 credit cards before completing college.⁷ Indeed, many students are not aware that not using their credit card does not necessarily terminate the cardholder agreement. Nevertheless, it is safe to assume that during this period the median age of opening a student’s first credit card account was the end of the freshman or beginning of the sophomore year of college.

Interestingly, the major disagreement between the industry-sponsored and the student loan/academic studies is the amount of accumulated credit card debt. Although the Student Monitor data and the 1998 The Education Resources Institute (TERI) survey show a monotonic increase of credit card debt over a student’s collegiate career, both studies report average student credit card debt at less than \$700.⁸

Similarly, the Staten and Barron study report average student credit card debt at less than \$600 although it does not estimate the total, aggregate average credit card debt per college student. And, of course, none of these studies explicitly investigated whether student loans were used to pay credit card debts during the students’ collegiate career. As a result, these different sampling units of industry-spon-

⁶General Accounting Office, *Consumer Finance: College Students and Credit Cards*, Washington, DC, June 2001, pp. 33–34. This methodologically flawed report features a striking reliance on credit card industry financed studies and an explicit reluctance to examine academic studies on the topic. In addition, the GAO failed to require the credit card industry to supply important proprietary information that could have revealed new insights into these issues.

⁷Student Monitor, “Financial Services,” Ridgewood, New Jersey, 2001 and Michael E. Staten and John M. Barron, *College Student Credit Card Usage*, Credit Research Center, Georgetown University, Washington, DC, June 2002.

⁸The Education Resources Institute and the Institute for Higher Education Policy, *Credit Risk or Credit Worthy? College Students and Credit Cards*, Boston, MA, June 1998.

sored studies tend to obscure rather than clarify the true level of consumer debt among college students.

The time series of surveys of undergraduate student loan clients at 4 year colleges (18 to 24 years old) conducted by Nellie Mae in 1998, 2000, and 2001 offers an important longitudinal comparison albeit based on a college student universe that includes differences from the overall U.S. student populations. For instance, these students may be less debt adverse and come from lower economic backgrounds. Hence, critics of these studies contend that the Nellie Mae data overstate the amount of credit card debt among college students. Nevertheless, the trends are striking. The proportion of students with credit cards rose from 67 percent in 1998 to 83 percent in 2001 while the proportion of students with 4 or more credit cards jumped from 27 to 47 percent. Median credit card debt per student rose from \$1,222 in 1998 to \$1,770 in 2001 while the proportion of balances from \$3,000 to \$7,000 rose 61 percent from 14 to 21 percent. Significantly, those with credit card balances exceeding \$7,000 declined from 10 to 6 percent which explains the decline in average credit card debt per student from \$2,748 in 2000 to \$2,327 in 2001. Unfortunately, we do not know if these most heavily indebted students reduced their credit card balances through debt consolidation transactions or actually paid it off.

The most striking pattern is the monotonic relationship between credit card debt and class standing in 2001. Median credit card debt rises from \$901 among freshman and \$1,564 among sophomores to \$1,872 among juniors and \$2,185 among seniors. The average credit card debt levels are \$1,533, \$1,825, \$2,705, and \$3,262, respectively, which reflects the high debt levels of students at the extreme tail of the distribution. Similarly, the proportion with balances between \$3,000 and \$7,000 rises from 8 percent of freshman and 18 percent of sophomores to 24 percent of juniors and 31 percent of seniors. Significantly, Nellie Mae reports the median student loan debt of seniors (\$15,708) together with their median student credit card debt (\$2,185) for a total of \$17,893; the average combined student debt of \$20,402 includes \$17,140 of student loans and \$3,262 of credit card debt.⁹ Although credit card debt comprises an average of 16 percent of median student debt among the college seniors of the 2001 Nellie Mae survey, this is an underestimate since it does not distinguish earlier credit card debt that was paid with student loans. These trends are immortalized in the Now and Zen “slacker” line of T-shirts which features a parody of the popular MasterCard advertising campaign: “Late night pizzas: \$5,200; Books for classes: \$7,000; Tuition & Fees: \$120,000; Moving back into the basement: Priceless.”

Student Financial [Il]literacy: Passing Or Making a Buck

The increasing social pressure to enjoy a more costly lifestyle in college and increasingly high school—the “Just Do It” competitive consumption of immediate gratification—means that students are more likely to spend borrowed rather than earned money outside the budgeting framework of a family allowance and part-time employment. For many parents, their children’s Internet shaped lifestyles entail the use of virtual money with its own set of rules and responsibilities. Plastic money is currency of the “web” and cash is becoming as alien to high school students as minimum wage employment is to the price of popular music CD’s and movie DVD’s. More disconcerting, however, is the lack of adequate personal finance or consumer “life skills” curriculum in American high schools. According to Professor Lewis Mandel, SUNY-Buffalo School of Management, less than one in seven high school seniors in his 2002 survey received any personal finance education.¹⁰ And, of course, not all curriculum is equal or entails measurable results. As a financial educator in Texas recently confided to me, the educational program for a private, largely white suburban school was offered every day whereas the same program was offered only once every other week in the largely minority, public, urban school.

The most striking finding of Professor Mandel’s financial literacy survey, which has been conducted over the last 5 years, is that the performance of high school seniors continues to decline. In 2002, the average score on his financial literacy test was only 50 percent, a failing grade by any measure concludes Mandel. Furthermore, only 60 percent agreed that sales taxes “makes things more expensive” and 35 percent stated that they are “not to sure” or “not at all sure” about how to manage their money.” At the same time, 28 percent reported using their own or their

⁹Nellie Mae, *Undergraduate Students and Credit Cards: An Analysis of Usage Rates and Trends*, Nellie Mae, Braintree, MA, April 2002.

¹⁰Lewis Mandell, *Our Vulnerable Youth: The Financial Literacy of American 12th Graders: A Failure by Any Measure*, JumpStart Coalition for Personal Financial Literacy, Washington, DC 1998, 2000, 2002.

parents' credit card.¹¹ As students feel compelled to spend more than they earn and credit card companies are eager to offer them high interest credit, it is becoming even more imperative that financial literacy programs be offered in high school and college so that America's youth do not suffer the social consequences of an unfair financial "playing field." Currently, the financial learning curve for American students is economically benefiting a few financial services conglomerates at the expense of unsuspecting families and the future of America's youth.

Clearly, the lack of financial education/literacy and parental oversight of students' purchasing decisions (especially over the Internet) encourages the credit card industry to market their products to increasingly younger students in the pursuit of higher corporate profits. As budgetary constraints send more high school students to junior colleges for part-time and even full-time classes and high school juniors and seniors visit colleges in order to make informed matriculation decisions, access to bank credit cards continues to push the boundaries of informed consent. In fact, I was recently contacted by an economics teacher at a California high school who was shocked by the brazen marketing of credit cards and student loans to his students on campus by representatives of Wells Fargo Bank. For this teacher, such aggressive marketing campaigns (featuring "free" mini soccer balls) means that the social and personal problems of local college students will become more prevalent in high school. For the credit card industry, then, the goal is to encourage naïve students to obtain credit cards at an earlier age and, especially, outside of the purview of their parents. Indeed, a recent study of credit card financed consumption patterns at Pennsylvania State University-Erie Campus showed that those students who used credit cards that are co-signed or whose bills are paid by their parents spend considerably less than their peers whose parents are excluded from the oversight of their credit card purchases.¹²

George Mason University: A Case-Study of a Mid-Sized Public University

The picture of student credit card debt on American college campuses appears from the available data to be a Dickensque "Tale of Two Cities." On the one hand, industry-sponsored studies portray college and high school students as largely informed consumers whose purchases tend to conform to a generally manageable level of personal debt. College is viewed as the stepping stone to a secure financial future and any accumulated debt will be easily paid-off during the early years of an adult's "earning cycle." On the other hand, critics of the credit card industry point out that credit card debt is vastly underreported and that the social consequences may outweigh the economic costs. This is because students are naïve about their personal and especially financial decisions which disproportionately impact minorities, first-generation college students, members of low-income households, and the emotionally fragile. Furthermore, college administrators are receiving millions of dollars in credit card "royalties" and other "sweeteners" from the banking industry which has clouded their judgement in accurately recognizing the magnitude of the problem and implementing the necessary educational programs. And, the noneconomic consequences can lead to academic failure, loss of financial aid, deteriorating employment prospects, health problems, personal and familial conflicts, credit problems, lifestyle difficulties, failed relationships, and even suicide.¹³

In order to assess the prevalence of student debt and the dynamics of student credit dependency, I sought to examine these issues through a case-study of a mid-sized public university: George Mason University. Located in Northern Virginia (Fairfax County) and part of the Washington, DC Metropolitan Area, George Mason University features an enrollment of approximately 25,000 students; about 60 percent are undergraduates and 40 percent graduate and professional students. In the spring of 2002, a random sample of 8,000 students was selected from the university registrar's list of matriculating students. From this sample, 800 randomly selected student interviews were conducted in April and the results confirm that the sample closely mirrors the university student population characteristics. From this sample, the results are presented separately for the undergraduate (N=500) and graduate

¹¹ Lewis Mandell, *Our Vulnerable Youth: The Financial Literacy of American 12th Graders: A Failure by Any Measure*, JumpStart Coalition for Personal Financial Literacy, Washington, D.C. 1998, 2000, 2002.

¹² Pinto, Mary Beth, Diane H. Parente, and Todd S. Palmer, "College Students' Credit Card Debt and the Role of Parental Involvement: Implications for Public Policy," *Journal for Public Policy and Marketing*, Vol. 20 (1), pp. 105–113.

¹³ Patrica Drentea, "Age, Debt, and Anxiety," *Journal of Health and Social Behavior*, Vol. 41 (December 2000), pp. 437–450; Patrica Drentea and Paul J. Lavrakas, "Over the limit: The association among health, race and debt," *Social Science & Medicine* Vol. 50 (2000), pp. 517–529; and Robert D. Manning, *Credit Card Nation: The Consequences of America's Addiction to Credit*, Basic Books, 2000.

students (N=300). This methodologically rigorous sampling design yields a representative sample of credit card usage patterns of George Mason University undergraduate students.¹⁴ Not incidentally, it is distinct from industry-sponsored studies that are comprised of pooled samples of small numbers of students from a large number of colleges and universities.

For the purposes of this hearing, I will report on only a few variables of public policy significance. First, Table 1 shows that over three-fourths (77.4 percent) of George Mason undergraduate students have bank credit cards. As expected, the lowest proportion (62.4 percent) is among freshman and the highest is among seniors (88.2 percent). Interestingly, the sharpest increase in credit card use is between sophomores (65.7 percent) and juniors (87.5 percent). Similarly, the proportion of students with more than two bank credit cards increases substantially from 5 percent among freshmen to 14 percent among sophomores to 21 percent of juniors and 28 percent of seniors. Interestingly, this trend coincides with the greater use of student loans as reported in Table 3, ranging from a low of 33.6 percent of freshmen to a high of 52.8 percent of seniors.

Table 2 illuminates the results of the recent marketing pressures on high school students. In 1998, 10 percent of George Mason freshmen indicated that they first used bank credit cards before the age of 18. Over the next 2 years, the proportion rose to an average of 16 percent and then double to 30 percent in 2001. Overall, 86 percent of the George Mason freshman class with bank credit cards received them by the age of 18 years old. Hence, bank credit cards are now available to virtually any college student and soon high school student who is at least 18 years old—regardless of financial education and/or experience. With the average cost of acquiring a new bank client ranging from \$120–\$170, it is not unreasonable to assume that some credit card companies may offer “kiddie cards” with comparable credit limits for 17-year-old students.

Access to consumer credit cards, however, does not necessarily entail student debt problems. If students are informed consumers and understand the cost-efficient use of bank credit cards, then earlier use of credit cards may result in fewer student debt problems later in school. Table 2 shows the results of whether students have maxed out their credit card limits at least once while in college. Surprisingly, nearly 60 percent of freshmen reported maxing out a credit card at least once while the proportion rises to about three-fourths of the remaining undergraduates. Even more shocking is the reported use of one credit card to pay for another. Almost 60 percent of George Mason freshmen and nearly two-thirds of the other Mason undergraduates used one credit card to pay for another. Finally, the question that has not been investigated by industry-sponsored studies is reported in Table 3. It shows that freshmen are more likely than upperclassmen to use their student loans to pay down their credit cards: 73 percent of freshmen versus 67 percent of juniors and seniors. This finding suggests that access to credit cards at an earlier age—without accompanying financial education—increases the probability of the accumulation of higher levels of costly consumer debt. The key issue, then, is who bears the costs of their social consequences?

Credit Cards on Campus: A Growing Collegiate Crisis or Benign Societal Trend

Like driving a car to work, bank credit cards offer highly convenient and useful services to informed consumers who understand how to use them most effectively. Although students can sacrifice their lives for the Nation through military service at the age of 18, they are not allowed to drive a car without adult supervision until they demonstrate adequate proficiency skills in an evaluation setting. Some students may be sufficiently mature to drive alone at 16 years old while others may not handle the responsibility until the age of 25 years or even older. Similarly, a novice driver should not be encouraged to drive a high performance sports car while an unemployed student should not be tempted with a high line of credit. As a male sophomore respondent explains, “I don’t own a credit card myself. I don’t think that I want one at this stage of my life. I couldn’t trust myself with a credit card right now. I have so many wants. It’s hard to separate my wants from my needs.” Another student discussed the naïveté of students toward “plastic” money, “I think it’s too easy to spend money because you’re not actually seeing the money, you’re just swiping the card real fast and then you don’t have to think about it anymore. If you had to pay with cash you would notice the size of your wallet decreasing.”

While such caution may lead to the rejection of the advantages of bank credit cards, the more common experience is expressed by a first-year female respondent,

¹⁴Robert D. Manning, Gregory A. Guagnano, and Ray Kirshak, *Credit Cards on Campus: A Growing Collegiate Crisis or Benign Societal Trend?* (September 2002).

[Credit cards are] a good way to establish credit, but an easy way to get carried away! I would suggest everyone who wishes to establish credit to get a credit card, but only use it for emergencies! Everything else, use cash or you will get yourself into a rut because it's too easy to say, "Oh, it's a credit card so I'll just pay it later." But you forget about the interest and finance charges and pretty soon you're at or beyond your credit limit and then you're stuck paying a high amount, plus finance charges each month! So be wise about getting/using credit cards . . . they can help you, but they can also hurt you!

The issue of informed/practical financial knowledge and lack of personal maturity resonates with the respondents of the George Mason survey. As second-year student confides, "It is important to build credit so that when you get out of school you have some good credit, but I think a lot of students end up worse off from having credit cards and do not use them wisely. I do not have one, but I will get one my senior year because I feel I will be mature enough to handle it then. I would rather not risk being in debt." A junior expressed frustration over the lack of marketing restraints on credit card companies, "It is so easy to get into deep debt using credit cards unwisely. If you can't afford to buy something with cash, you should generally not put it on a credit card. Credit card companies should not offer cards to everyone. We get at least six offers each week in the mail." These sentiments were echoed by a fourth-year senior, "I wish that I never received a credit card. I was stupid and 18. It didn't help that credit card companies would call my apartment on campus and ask if I wanted one because I was 'preapproved.' All they wanted was a sucker who would go into debt and owe them 500 percent interest. I think the age for getting a credit card should be 21. At least then you would have grown up a little bit more . . . away from your parents."

As George Mason students were asked to explain the principal reasons for rising credit card debt, financial illiteracy in general and the role of universities in particular assumed central roles in the success of "mafia-like" bank conspiracies. According to a recent graduate, "I think that Americans in general lack sound financial education which leads to many people accruing too much debt. Credit cards can be a useful spending tool, but should be paid off monthly if possible. I had \$20,000 in credit card debt when I got out of college . . ." Others specifically vented their anger at college administrators, "Universities should not allow credit card companies to solicit their business on-campus. Freshmen who live on-campus are very likely to get a credit card, spend wildly, and end up with terrible credit later in life. I saw it happen to many friends." Similarly, a second-year male respondent declared, "I think credit cards are pushed on college students too much. I have been offered a card by 8 different companies, at least, since I came to GMU. Credit cards are nothing but trouble because once you get them, you can't resist using them, and the companies know that. College students are easy prey for the credit card companies." As a fourth-year student described her continuing distress, "They are dangerous and I feel that I was trapped into getting one because every credit card company was after me [during] my freshman year and now I have so many I cannot pay them off. . . . The crazy thing is I have 4 cards that are maxed and I have not used them in the last 3 years [yet] I am still paying for them." Finally, a junior male respondent succinctly declared, "There should be a rule not allowing credit card companies to solicit applications from people on campus. They ruined my life."

Fear, anger, and despondency can overwhelm students who are trying to complete their studies especially when they realize that their credit cards are now an impediment rather than a useful aid in their quest to graduate. Whether as one sophomore describes them as, "They're like the Mob. You should know how to deal with them." Or as a graduating senior dispassionately explains, "I believe that most people do not know how to manage their money well, however, I feel that I can. I enjoy the fact that because most Americans are in debt because of their stupidity" to a fatalistic loss of freedom, "I really believe most Americans are moving toward the stigma associated with the word 'American': Born in debt, die in debt."

For many students, the loss of personal freedom that has resulted from the unbridled pursuit of competitive consumption on college campuses leaves no other option but Government regulation and public education. As a female junior concluded, "Public policy should require full disclosure about interest rates prior to issuing a credit card. Budget plans should be required prior to issuing a credit card. Financial planning courses should be part of junior high and high school curriculums—as well as for college freshmen." Sadly and ironically, most students expressed cynical pessimism that their university administrators would respond to the student debt crisis by imposing responsible restrictions on credit card companies and offering useful financial education programs and practical seminars. For most of these students,

credit cards were viewed as simply another way of “ripping off” students by an indirect form of revenue enhancement. The solution was articulately summarized by a third year male respondent, “I believe credit card use by students is alarming. How do students, who generally don’t work, pay back credit card bills . . . I think that there should be restrictions and legislation on credit card solicitations on college campus—college administrators, student government council, et cetera, have a responsibility to protect and educate students on the evils of credit card companies seeking student signups. Also, I think that credit card knowledge and awareness should be part of the College 101/1st year orientation class to help prevent this epidemic sweeping across college campuses. My mom was once a bank loan lender and she noted to me the sadness of the number of people who were denied loans because of poor credit ratings established as young college students.”

Conclusion: Public Policy Responses to Credit Cards on Campus

The unrestrained marketing of bank credit cards on college and high school campuses is not a phenomenon that simply can be reduced to dollars and sense. Rather the lack of financial literacy and educational programs is consigning increasing numbers of young Americans to the shackles of high-interest consumer debt—the lucky ones that is. Indeed, as students obtain access to “easy” money at an earlier age it means that some will encounter consumer debt problems as early as their freshman year of college and even in the senior year of high school. My data indicates that a substantial proportion of college student students exhaust their credit limits within an academic semester—regardless of the amount of aggregate credit. A \$500 “introductory” line of credit in the fall semester can easily rise to \$2,000 to \$4,000 by the end of the academic year. For many of these students, a realistic credit limit can make the difference between surviving their financial “learning curve” or becoming an academic casualty of competitive consumption or shrinking public education budgets.

As major credit card companies become leading student loan providers, competition for young clients will continue to escalate with students learning the refinement of debt management techniques like the “credit card shuffle” and the “hidden debt” or rotating student loan game. This explains how the credit card industry is increasing student credit card debt capacity (it is now common to find undergraduate students with credit card debts of over \$20,000) through public subsidies such as student loans and low-cost tuition at public universities. Unfortunately, the consequences of mounting credit card debt are not equally borne, especially amongst students from low-income, minority, and first-generation college backgrounds. Hence, the marketing of high-interest consumer loans to college students—before they begin full-time employment—has major implications to future societal trends such as college retention and graduation rates, racial and ethnic social inequality, rising health problems including anxiety and clinical depression, future matriculation in graduate programs, homeownership, career mobility, bankruptcy filings, retirement patterns, and even the decision to have children.¹⁵ It also has profound implications to the national savings rate—which is increasingly becoming a foreign policy issue—as the Consumer Bankruptcy Project of the Harvard Law School reports a 51 percent increase in filers under 25 years old between 1991 and 1999. These bankruptcy filers accounted for nearly 7 percent of all bankruptcies at the end of the 1990’s which is a striking finding in view of the brief number of years that they have spent in the full-time workforce.¹⁶

Clearly, the credit card industry has proven itself incapable of self-regulation while administrators of large public institutions have demonstrated greater interest in increasing credit card royalties than in fulfilling their responsibility to ensure the graduation of their students with the lowest possible level of financial debt. It is imperative that college administrators begin to formulate a code of conduct that is enforceable and with effective sanctions on unrepentant credit card marketers. As the banking industry emphasizes that credit card debt is an individual decision that requires individual level behavioral changes, it is important to note that this learning curve benefits primarily the top ten credit card companies. And, that these behavioral changes are the product of over a decade of costly and highly persuasive mass marketing campaigns. According to a representative of the American Banking Association, the credit card industry should not be criticized for marketing to teen-

¹⁵Sandy Baum and Diane Saunders, *Life After Debt: Results of the National Student Loan Survey*, Nellie Mae, Braintree, MA, 1998 and Robert D. Manning, *Credit Card Nation: The Consequences of America’s Addiction to Credit*, Basic Books, 2000.

¹⁶Reported in General Accounting Office, *Consumer Finance: College Students and Credit Cards*, Washington, DC, June 2001, pp.12–14. See also Teresa A. Sullivan, Elizabeth Warren, and Jay L. Westbrook, *The Fragile Middle Class: Americans in Debt*, Yale University Press, 2000.

agers since Americans are essentially fair game for all corporations beginning at the age of 3. Consequently, without legislative restrictions on credit card marketing and the implementation of objective, practical, and effective financial literacy/education programs in high school and in college, the student credit card debt problem will become a social crisis of far greater proportions.

Table 1
 NUMBER OF CREDIT CARDS BY CLASS STANDING
 George Mason University
 (April 2002)

	FRESHMEN (N=117)	SOPHS (N=102)	JUNIORS (N=120)	SENIORS* (N=161)
0	37.6%	34.3%	12.5%	11.8%
1	43.5%	34.3%	32.5%	31.1%
2	13.7%	17.6%	34.2%	29.8%
3	2.6%	9.8%	9.2%	14.9%
4	2.6%	2.0%	7.4%	6.8%
5	0.0%	1.0%	1.7%	1.9%
6	0.0%	0.0%	1.7%	2.5%
7 or more	0.0%	1.0%	0.8%	1.2%
TOTALS	100.0%	100.0%	100.0%	100.0%

*Includes students who have matriculated at least four or more years.

Source: Robert D. Manning, Gregory A. Guagnano, and Ray Kirshak, "CREDIT CARDS ON CAMPUS: A Growing Collegiate Crisis or Benign Societal Trend?" (September, 2002).

Table 2
STUDENT LOANS, AGE OF FIRST CREDIT CARD, MAXED CREDIT CARD
LIMIT, & USED CREDIT CARDS TO PAY FOR OTHER CREDIT CARDS
BY CLASS STANDING
George Mason University (April 2002)

	FRESHMEN (N=117)	SOPHS (N=102)	JUNIORS (N=120)	SENIORS* (N=161)
AGE OF FIRST CREDIT CARD (77.4% undergraduates have bank credit cards)				
16 and under	12.3%	5.8%	5.7%	5.0%
17	17.7%	10.1%	10.4%	5.0%
18	56.2%	56.5%	38.7%	45.4%
19	11.0%	14.5%	20.7%	14.9%
20	0.0%	2.9%	13.2%	9.2%
21	0.0%	1.5%	2.8%	8.5%
22	1.4%	5.8%	1.9%	2.8%
23 and over	1.4%	2.9%	6.6%	9.2%
TOTALS	100.0%	100.0%	100.0%	100.0%
MAXED OUT CREDIT CARDS (73.4% undergraduates)				
Yes	59.7%	77.9%	71.2%	80.0%
No	40.3%	22.1%	28.8%	20.0%
TOTALS	100.0%	100.0%	100.0%	100.0%
USED CREDIT CARDS TO PAY OTHER CREDIT CARDS (66.0% undergraduates)				
Yes	58.1%	67.7%	64.2%	70.6%
No	41.9%	32.3%	35.8%	29.4%
TOTALS	100.0%	100.0%	100.0%	100.0%

*Includes students who have matriculated at least four or more years.

Source: Robert D. Manning, Gregory A. Guagnano, and Ray Kirshak, "CREDIT CARDS ON CAMPUS: A Growing Collegiate Crisis or Benign Societal Trend?" (September, 2002).

Table 3

STUDENT LOANS, CREDIT CARDS, AND USED STUDENT LOANS TO PAY
DOWN CREDIT CARDS BY CLASS STANDING

George Mason University

(April 2002)

	FRESHMEN (N=117)	SOPHS (N=102)	JUNIORS (N=120)	SENIORS* (N=161)
STUDENT LOANS (45.0% received)				
Yes	33.6%	41.2%	40.0%	52.8%
No	66.4%	58.8%	60.0%	47.2%
TOTALS	100.0%	100.0%	100.0%	100.0%
CREDIT CARDS (77.4% undergraduates)				
Yes	62.4%	65.7%	87.5%	88.2%
No	37.6%	34.3%	12.5%	11.8%
TOTALS	100.0%	100.0%	100.0%	100.0%
USED STUDENT LOANS TO PAY DOWN CREDIT CARDS (68.3% or 112/164)				
Yes	73.3%	74.2%	70.5%	63.5%
No	26.7%	25.8%	29.5%	26.5%
TOTALS	100.0%	100.0%	100.0%	100.0%

*Includes students who have matriculated at least four or more years.

Source: Robert D. Manning, Gregory A. Guagnano, and Ray Kirshak, "CREDIT CARDS ON CAMPUS: A Growing Collegiate Crisis or Benign Societal Trend?" (September, 2002).

PREPARED STATEMENT OF ELLEN FRISHBERG

DIRECTOR, STUDENT FINANCIAL SERVICES, JOHNS HOPKINS UNIVERSITY

SEPTEMBER 5, 2002

Senator Sarbanes and Members of the Committee, it is my honor to appear before you today to represent the interests of the students of the Johns Hopkins University, in the great State of Maryland, to discuss financial literacy, and credit card usage among college students. As you know, Johns Hopkins is a decentralized, multifaceted research university, and I cannot presume to speak for all the divisions of the university. My 13-year experience there, helping students to pay for college, has been primarily with traditional undergraduate students—and at that endeavor we are a small, selective private college of 4,000. However, Hopkins does educate more than 17,000 students each year through our programs, both full- and part-time, graduate and undergraduate, in eight divisions, at nine campuses, and on three continents, and my remarks do touch many of these learners in some way.

Hopkins is proud of our outcomes—our students succeed and graduate in impressive numbers, and more than in any other school in the Nation, they go on to graduate and professional education. This has made our undergraduates an attractive market for financial companies who are looking for lifelong customers. I have never wanted for student loan lenders willing to lend to our students and their families—with a default rate of less than 2 percent, even with an average graduating debt of \$16,200, our students have established themselves as good payers. Solicitation of our students starts early—many freshmen arrived on campus this past weekend armed with credit cards they received their senior year of high school. It appears that lists are available to the direct mail marketers from a variety of sources, long before the students register at school. However, they also arrive without understanding of how that credit card works—what is APR, compound interest, and why they only have to pay a small amount each month.

Because of the ease of getting credit, the lack of financial savvy on the part of these otherwise very bright students, and the unchecked solicitation and giveaways that were going on during orientation, in 1994 the Dean of Students decided it was best to prohibit credit card vendors from the Homewood Campus. At about that same time, my staff and I became alarmed at the growing number of students who reported credit card problems—in some cases, causing them to have to leave school for a time to repair their financial health (I have a statement from one former student appended to this document—he was a poor, inner-city Baltimore child who was motivated and mentored by family, counselors, and clergy—and he became a successful graduate and attorney, but not before falling victim to the easy allure of credit card debt). Keeping credit cards out of the hands of students is a difficult task. We know that credit is not always a bad thing—it provides for emergencies, allows students to shop on the Internet, sometimes for used books to keep their costs low, and gives them air miles to help keep the cost of travel down—our students do come from all 50 States. However, we thought that if we made sure that our student loan and other financial services vendors were not cross marketing financial products to the database of students they were lending to, it would help to reduce the direct mail and Internet offers that came *because of* the student's relationship with the university.

For a variety of reasons, the university decided to participate in the William D. Ford Direct Loan program, which took private lenders out of the student loan equation for our need-based loans. While we have no empirical evidence, we believe that this decision has also reduced the number and type of solicitations that our students received for other financial products, including credit cards. Our concern remains that if you or I get into credit trouble, we have ways out—home equity loans or mortgage refinancing. If our students get in trouble, their options are limited—sometimes to their unknowing parents.

However, we are not so naïve as to believe that we can restrict or control the behavior of our students, who live their lives on the Internet—and if you ever searched on the web, you know that pop-up credit card offers are a way of life. Speaking of the web, colleges and universities have offered new web services to students to ease getting through administrative processes, including allowing tuition to be paid by credit cards. While Hopkins does not allow this for full-time students, we can see how it could help to get students into trouble. Because of the short time it takes to apply for and receive a credit card, some students will follow the path of least resistance and opt for credit card payment rather than a student loan. Compared to the process of applying for a Federal student loan, which can require up to 6 weeks and numerous applications and forms, credit cards are easier.

Our alumni association does offer an affinity card—the JHU card, but they are not permitted to market it to current students. In financial aid, we are pleased to have that card available as some of the proceeds come back to the annual scholarship budget to help fund needy students. But we are also happy that the marketing is restricted to graduating seniors.

What we as administrators can do is:

- Be aware of the cross-marketing that our vendors do—whether it is the ID and stored value card vendor or our student and alternative loan vendors.
- Use our stored value/debit cards as important learning tools—credit cards on training wheels.
- Encourage students to use the opt-out service of the major credit bureaus.
- Use our role as educators to teach about compound interest, capitalization, and credit reports, at the same time we are doing student loan default prevention.

Many students and parents are concerned about this topic—whenever I mentioned that I was coming here, there was universal agreement that a problem exists. My husband, an elementary school teacher, was a credit card executive in a former career. He believes that the banks need to take responsibility to offer a national education program at the high school level—as the use of cards will not go away. He says it is like sex education, educating young people about birth control after the pregnancy occurs is not very helpful.

The card industry can also help us with better disclosure in account statements, so that young people do not think that paying the minimum is sufficient, more programs like Life Skills, offered by USA Funds, and restricting their marketing to those who can afford to pay—not the students without the financial safety net and/or parental resources to fall back on.

Thank you for your time and attention.

STATEMENT OF A JOHNS HOPKINS GRADUATE, NOW AN ATTORNEY

Timeline of My Credit Experience

Spring–Summer 1995

- I am young and finally free from my parents. The desire to spend money the way I choose coupled with the lure of campus flyers that proclaim “No Annual Fee Student Visa/MasterCard” induce me to begin applying for credit.
- I apply for and receive my first three credit cards—one of them with a \$1,000 credit limit, another with a 17.99 percent interest rate. Rather than explaining the effect of the interest rate on the time it will take to pay off the debt, the cards simply play up the low \$15 minimum monthly payment.
- By the end of the summer I would have 4 credit cards, destroying one of the original three and picking up two more, including a department store credit card, in its place. My credit limits totaled \$3,700 at this point. My major credit purchases were a 3-CD shelf stereo system and an Apple computer.

Fall 1995–Spring 1996

- Three of my four credit cards are maxed out because of the computer and its accessories. I begin to use the fourth for groceries, clothing, and other miscellaneous items.
- During registration week and all through the fall, I see credit vendors outside of the campus bookstore giving away free T-shirts, mugs, and other gifts for merely filling out a credit card application. Driven partially by the drive to see how many cards I could get, and also because the freebies were nice, I began to apply for these cards also. Almost without exception, I would be approved for generous amounts of credit.
- I cannot fully remember what I would use my credit for, but I know that I was not using it responsibly. I would charge concert tickets, trips to the movie theater, nights dining out, tickets for college functions—basically anything I wanted to do but did not have cash on hand for.
- By the spring of 1996, I had at least 8 credit cards, all of them with balances, and credit debt approaching \$5,000. I only needed to be a student to get credit cards. As long as they knew I was a student, creditors would lend me money without regard to my lack of income (my only source of income was a Federal work study job working 10 hours per week at \$5.25/hour).

Fall 1998

- I am now married. Combined, my wife and I have 13 credit cards, more than \$11,000 in credit card debt and we earn \$18,500 annually. Two of the cards that I have had since 1995 have increased my credit limit by \$500 every 6 months for the preceding 2 years, making their combined credit limit almost \$6,000.
- After years of financial irresponsibility, I decide to finally get my financial house in order. This task is made somewhat easier by the fact that, by never being late with a payment, I have a nearly perfect credit history.
- I begin to seriously talk with my college financial aid advisors. I acquire financial software and begin reading books on credit literacy. For the first time I learn that, thanks to the magic of compound interest, I would probably spend the rest of my life paying off credit cards if I continued to make the minimum payments. I learn that making payments on time does not help my credit rating in the short-term because my debt to income ratio is high and because I have high balances on the credit cards. I realized that your credit rating affects your ability to get a house, a car, and even a job.
- I begin the slow process of defeating my credit card debt through a combination of increasing my monthly payments as much as my wife and I could afford and by paying down my credit cards with student loans left over from my final year of college.

Present

- Thanks to self-education about credit, coupled with strict financial management, my wife and I were able to pay off our last credit card in September 2001. We destroyed most of the original 13 cards and today only have 2 of those cards left (for emergencies of course).
- I have been able to use my credit to my advantage to secure commercial educational loans to fund my professional school education, to buy an affordable used car, and to buy a wonderful town home.

The Moral of My Story

My story actually resonates through college campuses. Thousands, perhaps even hundreds of thousands of young, financially irresponsible 18-year-olds leave home each year in search of social and of financial freedom from their parents. These 18-year-olds are easy prey for credit card advertisements that play up “no annual fee” and “low minimum monthly payment” while offering free gifts as bonuses for applying for cards. By no means, however, does the onus fall totally on credit card companies. Although there were resources that I could utilize at my college, many colleges perhaps do not offer entering students programs and services designed to help them make wise decisions about their credit. Many of these 18-year-olds, including myself at that age, also need to own up to the responsibility that freedom demands of them by educating themselves in the manner that I eventually did.

I do not have all the answers. I do know, however, that the ability and willingness of an 18-year-old college student to begin to amass a credit debt of \$11,000 with 13 credit cards raises questions that demand answers and action on the part of the student, the educational institution, Congress, and the credit card companies.

PREPARED STATEMENT OF NATALA K. HART

DIRECTOR, STUDENT FINANCIAL AID, THE OHIO STATE UNIVERSITY

SEPTEMBER 5, 2002

Mr. Chairman, Members of the Committee, my name is Nataka Hart, and I am honored to be sitting before you today. As the Director of Student Financial Aid at The Ohio State University, I see in our week each day the growing importance of basic financial skills for today's students. In my opinion, those skills can be as important as the excellent academic knowledge students received at Ohio State.

The matter of financial literacy has emerged as the leading financial concern among parents sending their children to Ohio State. We believe that this is reflective of a national concern about the extensive opportunities for credit, including credit among students still in high school and as young as 16. I myself am a parent of a 13-year-old and find it necessary to already begin coaching Katie about credit, and its proper and improper uses.

We in the Office of Student Financial Aid entered into a surprising view of the role of credit as we studied the profile of the small number of former OSU students who default on their student loans. What we learned was that the vast preponderance of those who defaulted on their student loans had even higher consumer debt, most often the result of credit card use. We do not know if this usage occurred while in college or after, but it had a dramatic, negative effect on their ability to meet their obligations to repay their Federal student loans.

We also learned from our colleagues assisting students in our residence hall system that a small but troubling number of students were arriving at Ohio State deeply in credit card trouble. They defined credit card trouble as being so consumed by concern about paying credit card bills that the students could not adequately focus on their primary purpose of working on their education.

Our colleagues, Student Affairs, also conducted a study that highlighted the same issues: A very high percentage of college students are in credit card debt far too large and proving disruptive to their studies. I have provided Committee staff with a copy of that study by Dr. Andrea Dowhower.

Finally, we were ourselves educated by Dr. Lucia Dunn, an Ohio State economist, who has developed a "Debt Condition Index," part of a "Debt Stress Index" that identifies the point at which debt begins to negatively affect the life of Americans.

What Are We Doing About Credit Issues?

Ohio State has taken several proactive steps to assist both students who are over their heads in debt or who need to avoid being in that position.

- We have instituted as part of our Office of First Year Experience (FYE) Success Series a special week for financial literacy.
- We have enacted a campus policy that limits credit card solicitation on campus.
- Ohio State has required as part of its agreement with the single credit card company approved by the campus funding for a debt counseling position in our Mary Daniels Student Wellness Center.
- My office has added a senior staff position dedicated to Debt Management that will collaborate with the debt-counseling center.
- We have and will participate in providing feedback to several groups developing excellent training materials about dealing with finances and avoiding debt. Those include:
 - The Financial Survival Program by the Consumer Federation of America and MasterCard International.
 - Life Skills Series by USA Funds.
 - OSU developed courses on use of credit cards and basic financial skills.

The Ohio State study by Dr. Dowhower has been repeated with results available in the next few months. We know from preliminary findings that fewer students reported reaching the maximums on their credit cards. (In 2000, 73.8 percent of students had not "maxed out" a credit card; in 2002 the percent increased to 84.3 percent.) However, that may be because students have higher balances because the amount of their monthly balance has not changed too much. Of concern is their response to the balance on the credit cards: In 2000, 26.1 percent had greater than a \$500 balance compared to 23.1 percent in 2002.

The Ohio State policy to limit credit card solicitation came from a recommendation of our Council on Student Affairs, one of the most important university student, faculty, and staff committees. The Council learned that as a public institution governed by Ohio law, we could not totally ban credit card solicitation on campus due to First Amendment law governing commerce. We could, however, limit the "time, place, and manner" in which credit card companies approached our students.

The proposal being implemented restricts solicitation to the beginning of academic terms, eliminates solicitation without incentives of limited value such as soda or T-shirts, and defines educational initiatives that will be provided under the terms of the successful contract bidder. We believe that these limits will result in students who chose credit card access for the right reasons.

I would like to describe our coursework in basic financial education before closing. We have learned through Dr. Mabel Freeman and her staff in our Office of First Year Experience that in the transition to college, it is most often the third week of their initial enrollment that students who do not have basic financial skills discover they need those skills. We offer courses in constructing a budget, managing a checking account, good and poor uses of credit cards, and even saving and investing, emphasizing not going into debt as a fundamental component of saving and investing.

Last year, we offered 11 courses at hours convenient to the students. More than 1,500 class attendance hours were recorded. Students were required to write one paragraph reflection on what they learned. Examples of their comments (paraphrased) were:

“I learned that completing college is actually the best investment I can make.”

“Through the class, it was clear that I should try to avoid credit cards other than for real emergencies.”

“I really didn’t understand how to balance a checkbook—and I didn’t want to admit that even to myself.”

We believe that financial literacy is a critical component of our students’ educational success and their success as alumni of Ohio State. We would be pleased to assist the Committee as it considers financial education as a requirement for young credit card recipients.

Thank you.

Spending Habits of OSU Undergraduates:

**A Data Analysis of Student Debt, Credit Cards, and
Employment**

2002

The Ohio State University

The Office of Student Affairs Assessment

October 2002

Spending Habits of OSU Undergraduates: 2002

EXECUTIVE SUMMARY Student Affairs Assessment

The main goal of this study was to assess student-spending patterns as related to debt, credit card use, and employment at The Ohio State University. By understanding student spending habits and the financial atmosphere in which they live, university initiatives and policies can be implemented to assist students in managing their finances, establishing responsible credit card use, and finding employment that is conducive to achieving academic goals.

This report presents comparative data from two similar surveys conducted in 2002 and 2000. Both surveys were sponsored by the Office of Student Affairs Assessment and administered through the OSU College of Social and Behavioral Sciences' Center for Survey Research. Student responses were obtained through telephone interviews of OSU undergraduates. The 2002 survey randomly selected 1000 undergraduate students and received 613 responses for a response rate of 63% and a 3.9% margin of error. The 2000 survey randomly selected 785 undergraduate students and received 421 responses for a response rate of 54% and a 4.7% margin of error.

The following conclusions were made from the data:

Students in both 2002 and 2000 gave similar responses when asked about their indebtedness. Overall, students do not seem to be overly concerned or stressed about their debt.

- In both years, over 60% of students (63.8% in 2002 and 61.8% in 2000) did not consider themselves in debt.
- For those students in debt, a majority (59.6% in 2002 and 57.9% in 2000) responded that their debt would be only a small problem or no problem at all in the next five years.
- On the other hand, 20% of students in debt in 2002 and 2000 responded that they felt "a great deal" or "quite a bit" of stress regarding their debt.

A comparison between survey results in 2002 and 2000 depict a decline in debt-related consequences.

- There was a 11.3% decrease in students taking on an extra job or working extra hours as a result of their debt (from 64.5% in 2000 to 53.2% in 2002).
- A smaller percentage of students in 2002 (23.1% compared to 28.4% in 2000) considered using student loans to pay back other bills.
- In 2002, 17.6% of students responded that debt had caused them to neglect their academic work compared to 22.7% in 2000.

The percent of student credit card holders has increased since 2000; students are coming to campus already possessing credit cards; and a greater percentage of these credit cards have been acquired through the assistance of parents.

- Precisely 67.0% of students surveyed in 2002 reported possessing a credit card compared to 57.3% in 2000 – an increase of almost 10%.
- Approximately 50% (50.2%) of students with at least one credit card in 2002 acquired a credit card prior to starting college compared to 41.0% in 2000.
- Almost 31% (30.9%) of students with a credit card(s) in 2002 said either a parent or guardian assisted them in acquiring a credit card compared to 14.2% in 2000.

Although a higher percentage of students possess credit cards, on the whole students seem to be managing their credit card debt more responsibly.

- Approximately 62% (62.4%) of students with credit cards in 2002 reported paying off their balance monthly while 55.5% replied this way in 2000.
- Of students with a credit card(s) the average monthly balance in 2002 was \$592 with an average monthly payment of \$211. This is an improvement from 2000 when the average monthly balance was \$659 and the average monthly payment was \$166.
- Over 84% (84.3%) of students in 2002 reported that they had not reached their credit limit on any credit card compared to 74.1% in 2000.
- Compared to 2000, students in 2002 were less likely to use credit cards because of a lack of money (27.0% in 2002 compared to 35.2% in 2000) and more likely to use them for convenience (38.7% in 2002 compared to 32.6% in 2000).

Students are considerably more interested in receiving information on credit card management, and they are much more inclined to follow a monthly budget.

- Almost 77% (76.7%) of students in 2002 responded that they would find it useful if the university gave advice on how to use and manage credit cards while only 30.6% responded this way in 2000.
- In 2002, 44.7% of students followed a monthly budget compared to 27.9% in 2000.

Employment data remained fairly constant between the two years. Paying for monthly expenses is the primary reason for working.

- Close to two thirds of students in both years (65.6% in 2002 and 63.5% in 2000) were employed.
- In 2002, students worked an average of 20.82 hours and made \$8.73 compared to working an average of 22.62 hours and making \$8.24 in 2000.
- A majority of students in 2002 (52.2%) held a job to pay for monthly expenses. Others worked for spending money (29.4%), to pay for college (10.1%), to pay credit card bills (5.6%), and to support a family (2.8%).

INTRODUCTION

Context

Over the course of college life, many students accrue burdensome, and in some cases, unmanageable levels of debt. In a report released by the Higher Education Project of the State Public Interest Research Groups, it was estimated that 39 percent of student borrowers were graduating with “unmanageable levels” of student-loan debt. The report also showed that the average debt among student borrowers has doubled in the last eight years to \$16,928 (Kellogg, 2002). High amounts of debt are likely to affect students in negative ways. In studies looking at the stressors students face on campus, students have identified financial matters as one of their biggest concerns (Murphy & Archer, 1996).

The horror stories of student debt accumulation often begin with overextended credit card use. At the same time, there is a belief that the best opportunity to initiate a credit history is during the collegiate years. Many people also see credit cards as conveniences and as beneficial resources during emergencies. However, the convenience may tempt students to live beyond their means and the students may not understand the consequences of incurring excessive debt (D’Agostino, 2001). A recent survey of 55 colleges determined that 80 percent of students questioned had underestimated the total costs of their loans by an average of \$4,846 (Burd, 2001).

Even though credit cards have the potential to dangerously burden students with debt, students continue to acquire them. According to a survey sponsored by the firm Student Monitor and based on 1,200 randomly selected students from 100 universities around the country, 63 percent of undergraduates reported possessing credit cards. Of these students, 42 percent carried a balance with an average debt of \$577 (D’Agostino, 2001). In a survey of students who had applied for financial assistance through Nellie Mae, 83 percent possessed at least one credit card with an average balance of \$2,327 (Nellie Mae, 2002).

As a result of financial need, a greater number of students are working during their undergraduate years. Pinto, Parente, and Palmer (2001) have argued that, “the enhanced spending opportunities available through easy access to credit cards is likely to increase students’ need to work extended hours to pay off outstanding balances” (p. 49). Nationally, 8 out of 10 students work while pursuing an undergraduate degree. To finance their education, students are more likely to use earnings from jobs held during the academic year than they are other types of funding (including student aid or parental support) (King, 1998). Although much has been written about student indebtedness, a more serious problem may be found in students working longer hours to meet financial commitments.

Research shows that the effect of employment on students’ education varies depending on where they work and how many hours they work. Working full-time or part-time off campus has been shown to have a negative effect on degree completion, college GPA, various areas of self-reported growth, and every aspect of college satisfaction except with facilities. Working part-time on campus, however, has the opposite effect. It is positively associated with degree attainment, virtually all areas of self-reported cognitive and affective growth, and all areas of satisfaction except facilities (Astin, 1993). Similarly, longitudinal research conducted by the

Department of Education on students who began college in 1989 shows that working more than 15 hours a week has a negative effect on students' likelihood of staying in college. On the other hand, working less than 15 hours has a positive effect (King, 1998).

Purpose of Study

The purpose of this study is to assess students' financial status and spending patterns. Specifically, the study measures characteristics of student debt and consequences of debt, monthly budgets, purchase methods, credit card use and payment patterns, and student employment. Furthermore, comparisons are made between the surveys conducted in 2002 and 2000 to measure change over time. It is possible that by understanding the spending habits of students, university initiatives and policies may be implemented to assist students in managing their finances, in establishing responsible credit card use, and in finding employment that is conducive to achieving academic goals.

Study Methodology

The 2002 survey was based on telephone interviews conducted from May 6 to May 27, 2002, of 613 Ohio State, Columbus campus students (Spring quarter, 2002). Students were randomly selected for participation from a database of all undergraduate students provided by the Office of the Registrar. Initial attempts to contact respondents were made to local telephone numbers. Respondents were called at home and, if necessary, at other phone numbers when such information was available. All telephone interviews were conducted by the OSU Center for Survey Research facilities.

A total of 1,000 students were randomly selected to participate in the 2002 survey. In many cases, viable telephone numbers were called upwards of 10 times in attempt to reach a respondent at a convenient time. In 27 cases the student was ineligible to participate in the survey. The remaining 973 cases were *presumed* to be eligible cases with valid contact information. A total of 613 interviews were completed, for a response rate of 63 percent using the most conservative calculation suggested by the American Association for Public Opinion Research. The margin of error was 3.9%.

This report compares data collected in 2002 with that of a similar survey conducted in 2000. The 2000 survey was also conducted by phone through the services of the OSU Center for Survey Research. The survey was administered to 785 students and received 421 responses for a response rate of 54% and a margin of error of 4.7%.

Limitations

Inherent to survey research are limitations of imprecision and sampling error. Imprecision occurs in a number of different forms. Given the nature of phone surveys, the accuracy of the data is dependent upon the relationship between the interviewer and interviewee. Problems in question interpretation and/or interviewer interference are not uncommon. Also, surveys are subject to bias associated with the wording and/or ordering of questions.

Another limitation concerns potential sampling error. Although the sample was selected randomly, sampling error may interfere with the generalizability of the results. Given the nature of sampling, certain groups were slightly over-represented in the sample when compared to the population (e.g., White students and those under 21) while others were slightly under-represented (e.g., African Americans and those over 21) (see Appendix for further detail). These differences, however, were not large enough to warrant weighting the data.

In some circumstances, comparing data between the 2002 and 2000 surveys proved difficult. In addition, minor changes to the wording and ordering of questions used in the 2002 survey made some responses incompatible with their counterparts in 2000. Irreconcilable differences between data sets affected only a small number of questions and where the integrity of the information was not altered by changes, comparisons are provided.

Description of the Sample

The demographics of the students who participated in the survey conducted in 2002 were as follows: (See Appendix for comparisons with the student population)

- GENDER: 48.3% were female; 51.7% were male
- RANK: 22.2% were first year; 23.2% were second year; 23.5% were third year; 31.2% were fourth year
- GPA: 48.0% had a GPA between 3.0 and 4.0; 40.6% between 2.0 and 2.99; 11.4% less than 2.0
- AGE: 49.6% were under 21 years of age; 50.4% were 21 or over
- RACE/ETHNICITY: 82.2% were White; 6.0% were African American/Black; 5.1% were Asian/Pacific Islander; 2.9% were International; 2.1% were Hispanic/Latino(a); 0.2% were American Indian/Alaskan Native; 1.5% self-reported as "other"
- RESIDENCE: 30.1% lived on-campus; 69.3% lived off-campus; 0.7% reported "other"

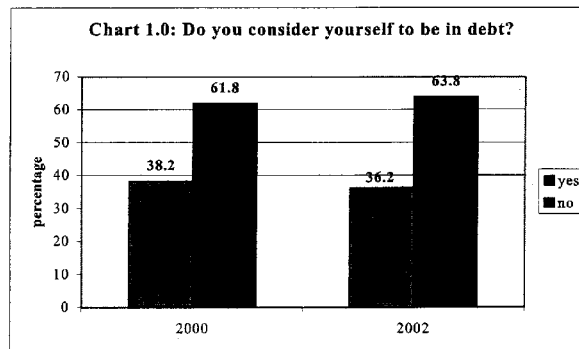
FINDINGS

The findings are organized into three sections: Student Debt, Credit Cards, and Employment. In the first section (Student Debt), the stress and consequences caused by debt and the factors that may influence indebtedness like budget adherence and purchase methods are presented. In the second section (Credit Cards), findings related to credit card possession, management, and use are presented. Student Employment is the last section presented. Information on employment rate, hours worked, wages, and reasons for working are examined. When applicable, comparisons are made between responses given to questions in the year 2000 survey.

Student DebtDebt

Students in both 2002 and 2000 were asked if they perceived themselves to be in debt (see Chart 1.0). No significant change occurred between the two years.

- In both years, over 60% of students (63.8% in 2002 and 61.8% in 2000) did not consider themselves in debt (see Chart 1.0).
- Of note, students with a GPA of 3.0 or higher were less inclined to report indebtedness. Approximately 31% of students with a GPA of 3.0 or higher considered themselves in debt while over 40% of students with a GPA of 2.99 or lower considered themselves in debt (data not shown). These findings were consistent in both 2000 and 2002.



(2000: n=419; 2002: n=611)

Debt-Related Stress

Of those who considered themselves in debt, the following responses were given to questions relating to their debt accumulation and subsequent stress (see Tables 1.0 and 1.1). Students in

both 2002 and 2000 expressed similar sentiments regarding the severity of future problems caused by their debt.

- In 2002, 9.5% of students who considered themselves in debt indicated that their debt would be a large or extreme problem compared to 8.5% in 2000.
- For both years, a majority of students who considered themselves in debt (59.6% in 2002 and 57.9% in 2000) responded that their debt would either be a small problem or no problem at all.

Table 1.0: Thinking ahead over the next five years, how much of a problem will the total amount of money you owe be for you?

By percent	2000 (n=140)	2002 (n=220)
An extreme problem	1.4	1.8
A large problem	7.1	7.7
A medium problem	33.6	30.9
A small problem	38.6	35.5
Not at all a problem	19.3	24.1

- Similar results were reported in both years concerning the amount of stress caused by debt. Twenty percent (20.0%) of students who considered themselves in debt in 2002 and 20.6% in 2000 responded that they had “a great deal” or “quite a bit” of stress regarding their debt.
- However, in 2002, 39.5% of students who considered themselves in debt responded that they experienced “not very much stress” or “no stress at all” compared to 44.7% in 2000. Students in 2002 were more likely to report that their debt caused “some stress.”

Table 1.1: How much stress does the total amount that you owe cause you?

By percent	2000 (n=140)	2002 (n=220)
A great deal of stress	7.1	6.4
Quite a bit of stress	13.5	13.6
Some stress	34.8	40.5
Not very much stress	29.8	30.0
No stress at all	14.9	9.5

Consequences of Debt

In addition to measuring students' concern and stress over their debt accumulation, students were asked a series of questions regarding the consequences they had experienced because of debt. These questions were based on their current debt, rather than projections of their debt after college (see Table 1.2). Overall, when comparing 2002 and 2000 data, evidence suggests that, out of students who considered themselves in debt, a smaller percentage of students experienced negative consequences as a result of their debt.

- In 2002, 53.2% (compared to 64.5% in 2000) had taken an extra job or worked extra hours as a result of their debt.
- Almost 53% (52.7%) of students who considered themselves in debt in 2002 had asked or considered asking family members for financial help compared to 58.2% in 2000.

- Approximately 23% (23.1%) of students who considered themselves in debt in 2002 had considered using student loans to pay other bills while 28.4% responded this way in 2000.
- In 2002, debt caused 17.6% of students who considered themselves in debt to neglect their academic work compared to 22.7% in 2000.
- In 2002, 10.0% had either considered dropping out of college or already had dropped out of college compared to 18.6% in 2000.
- Almost 16% (15.9) of students who considered themselves in debt in 2002 (compared to 19.1% in 2000) responded that their debt had caused them to take out a debt consolidation loan.

Table 1.2: Has the amount of money you owe caused you to...?

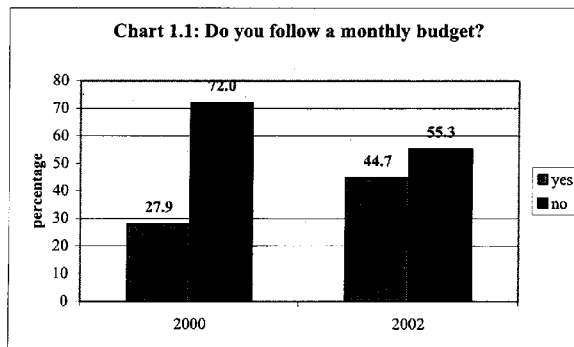
By percent	2000 (n=141)	2002 (n=221)
Take an extra job or work extra hours	64.5	53.2
Ask or consider asking your parents or family members for help	58.2	52.7
Use or consider using student loans to pay other loans or bills	28.4	23.1
Neglect your academic work	22.7	17.6
Drop out or consider dropping out of college	18.6	10.0
Take out or consider taking out a debt consolidation loan	19.1	15.9

(Multiple responses, will not equal 100%)

Monthly Budget

Students in both 2002 and 2000 were asked whether or not they followed a monthly budget (see Chart 1.1).

- In 2002, 44.7% of students followed a monthly budget compared to 27.9% in 2000.

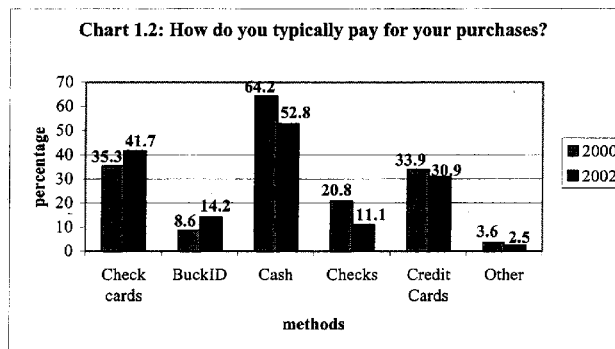


(2000: n=418; 2002: n=611)

Purchase Methods

Students were asked how they typically paid for purchases in both 2002 and 2000 (see Chart 1.2).

- Data indicate an increase in the use of check cards (41.7% in 2002 compared to 35.3% in 2000) and BuckID (14.2% in 2002 compared to 8.6% in 2000) and a slight decrease in the use of credit cards (30.9% in 2002 compared to 33.9% in 2000).
- A majority of purchases were still made with cash in 2002, but students were less likely to use cash to pay for purchases than they were in 2000 (52.8% in 2002 compared to 64.2% in 2000).



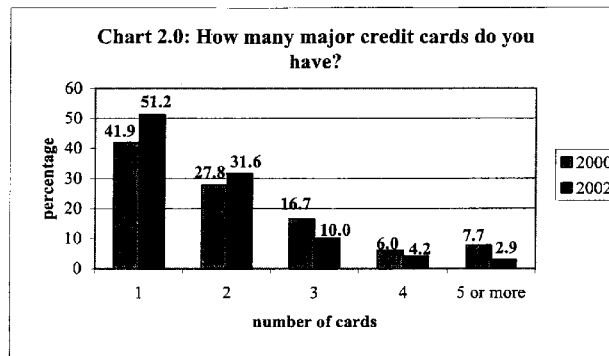
(Multiple responses, will not equal 100%
2000: n=419; 2002: n=612)

Credit Cards

Prevalence

Students were asked if they had a credit card in their name, if a parent or guardian had assisted them in acquiring a credit card, and how many credit cards they possessed in both 2002 and 2000.

- The evidence shows almost a 10% increase in students owning credit cards. Precisely 67.0% of students surveyed in 2002 reported possessing a credit card compared to 57.3% in 2000 (data not shown).
- In 2002, almost 31% (30.9%) of students with credit cards said either a parent or guardian assisted them in acquiring a credit card. Only 14.2% responded this way in 2000 (data not shown).
- Of students with credit cards, a higher percentage of students in 2002 (82.8%) possessed one or two credit cards than in 2000 (69.7%). However, a lower percentage of students in 2002 (17.1%) possessed three or more cards than in 2000 (30.4%) (see Chart 2.0).



(2000: n=234; 2002: n=408)

The responses to the question, “when did you first acquire a credit card?” suggest that a higher percentage of students are coming to OSU already with a credit card.

- Approximately 50% (50.2%) of students with at least one credit card acquired a credit card prior to starting college compared to 41.0% in 2000 (data not shown).

Use

Students who possessed credit cards reported on the frequency of use (see Table 2.0 – 2002 data only).

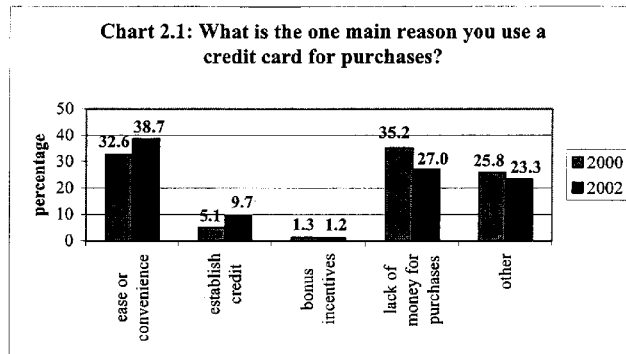
- Almost 84% (83.7%) of students with a credit card(s) reported using a credit card on a fairly regular basis (daily, weekly, or monthly).

Table 2.0: Usage patterns of Credit Cards: 2002

Responses (n=409)	Percent
Almost everyday	15.2
About once a week	28.9
Once or twice a month	39.6
Once or twice a year	13.0
Less than once per year	3.4

Students with at least one credit card in both 2002 and 2000 were asked to give the one main reason for credit card use (see Chart 2.1).

- Compared to 2000, students in 2002 were less likely to use credit cards because of a lack of money (27.0% in 2002 compared to 35.2% in 2000) and more likely to use them for convenience (38.7% in 2002 compared to 32.6% in 2000).



(2000: n=236; 2002: n=403)

Payment Patterns

Of the students who had credit cards, they reported the following payment patterns (see Table 2.1).

- Over 62% (62.4%) of students with credit cards in 2002 reported paying off the balance monthly while 55.5% replied this way in 2000.
- For both years, almost an equal percentage of students “paid off their balance within two months” of making the charges (11.6% in 2002 compared to 11.4% in 2000).
- In addition, 26.0% carried a balance for more than two months in 2002 compared to 33.1% in 2000.

Table 2.1: Payment Patterns

By percent	2000 (n=236)	2002 (n=404)
Pay it off each month	55.5	62.4
Pay it off within 2 months of making the charges	11.4	11.6
Carry a balance for more than 2 months	33.1	26.0

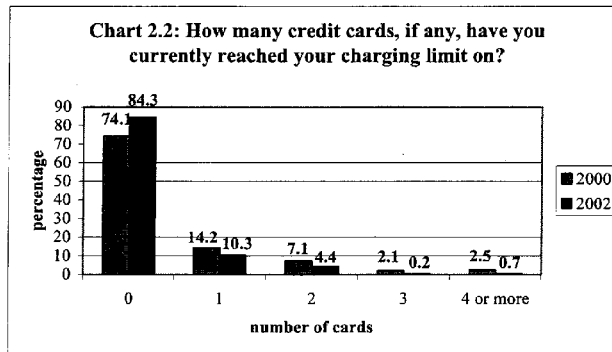
- Over 93% (93.4%) in 2002 reported that over the past six months they paid at least the minimum on their credit cards compared to 87.1% in 2000 – an increase of 6.3% (see Table 2.2).
- Moreover, in 2002, 74.8% responded that they had always paid more than the minimum over the last six months compared to 64.2% in 2000 – and increase of 10.6% (see Table 2.2).

Table 2.2: In the past six months, how many times did you...

By percent	Not pay at least the minimum due on any of your credit cards		Pay only the minimum amount due on any of your credit cards	
	2000 n=240	2002 n=408	2000 n=240	2002 n=408
0 times	87.1	83.4	64.2	57.8
1 time	4.6	7.0	5.0	7.4
2 times	4.2	5.2	10.0	14.9
3 times	1.7	1.0	4.2	4.2
4 times	0.8	0.2	3.8	1.2
5 or more times	0.4	0.5	11.6	1.4
Don't know/ refused	1.2		1.2	

Students with credit cards also reported on whether or not they had reached their credit limit and on their average monthly balances and payments (see Chart 2.2 and Table 2.3).

- Over 84% (84.3%) of students in 2002 reported that they had not reached their credit limit on any credit card compared to 74.1% in 2000.
- In addition, a smaller percentage of students in 2002 (5.3%) reported having reached their credit limit on two or more credit cards compared to 11.6% in 2000.



(2000: n=239; 2002: n=408)

- In 2002, 12.9% of students (compared to 14.2% in 2000) who had credit cards responded that on average they did not carry a monthly balance (see Table 2.3).
- In 2002, 23.1% of students who had credit cards reported carrying a total balance of more than \$500 compared to 28.0% in 2000.
- In 2002, 83.6% of students who had credit cards responded that their average monthly credit card payments were \$300 or less. In 2000, 87.9% responded this way.

Table 2.3: Average Total Monthly Balance and Amount Paid Monthly

By percent	Average Monthly Balance Carried On Credit Cards		Average Amount Paid Monthly On Credit Cards	
	2000 (n=225)	2002 (n=439)	2000 (n=229)	2002 (n=360)
0	14.2	12.9	6.6	6.3
\$100 or less	24.4	24.3	50.7	47.5
\$101-\$300	22.2	23.7	30.6	29.8
\$301-\$500	11.1	13.9	7.9	9.3
\$501-\$1000	13.3	11.0	3.1	4.6
\$1001-\$1500	2.7	3.2	0.9	1.4
\$1501-\$2000	4.4	3.9	0.4	0.5
Over \$2000	7.6	6.7	0.0	0.5

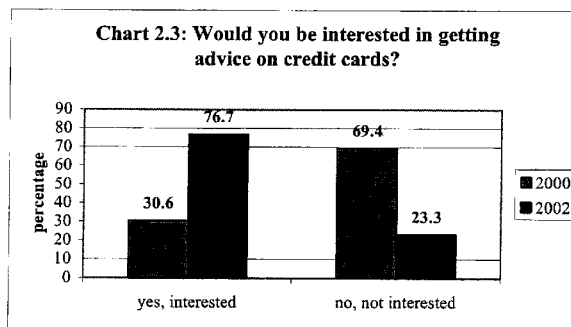
Although a larger percentage of students in 2002 were carrying a balance on their credit card(s), students seemed to be managing their debt with greater responsibility.

- Approximately 56% (56.3%) of all students in 2002 (compared to 47.6% in 2000) carried a credit card balance (data not shown).
- Of students with a credit card, the average monthly balance was \$592 with an average monthly payment of \$211. This is an improvement from 2000 when the average monthly balance was \$659 and the average monthly payment was \$166 (data not shown).

Receiving Advice

Students were asked for their opinions about receiving university advice on credit card management.

- A high proportion of students in 2002 (76.7%) responded that they would find it useful if the university gave advice on how to use and manage credit cards while only 30.6% responded favorably in 2000 (see Chart 2.3).

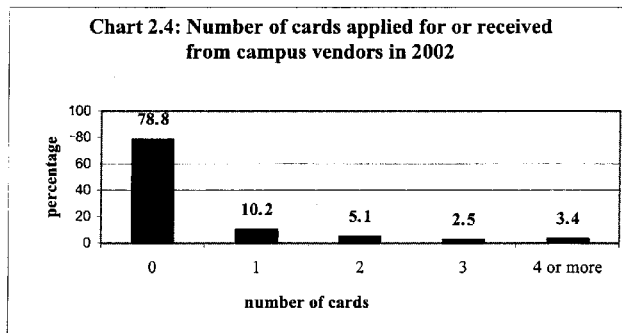


(2000: n=418; 2002: n=602)

Vendors on Campus

Another issue related to credit card use among college students is the presence of credit card vendors on campus (the university is changing its policy beginning 2002-2003 to a one-vendor contract allowing only limited access to campus). As such, students were asked about how frequently they have applied for or received credit cards from vendors, their impressions of the vendors on campus, and their reasons for applying for a credit card on campus (all percentages are from 2002 data).

- Approximately 23% (23.4%) of students surveyed applied for or received a credit card from a vendor on campus (data not shown).
- Close to 18% (17.8%) of students reported that they had applied for or received between one and three credit cards from vendors on campus. Another 3.4% had applied for four or more cards (see Chart 2.4).



(2002: n=607)

- A majority of students (68.2%) claimed that one reason for applying for credit cards on campus was “free stuff” (data not shown).
- Of those students who applied, only 19.4% responded that they actually needed a credit card (data not shown).

Students were asked an open-ended question about their impressions of credit card vendors on campus.

- A high proportion (80.6%) reported negative impressions:
 - They are annoying, obnoxious, and pushy.
 - They take advantage of college students.
 - They should not be allowed by the administration because they lead to early debt that overwhelms students.
- Almost 12% (11.6%) of students were indifferent:
 - They're just salesman doing their job.
 - If you want them, they are there; if you don't, you can just walk by.
 - They don't really bug people too much. They push it and offer free stuff, but most kids just pass by.

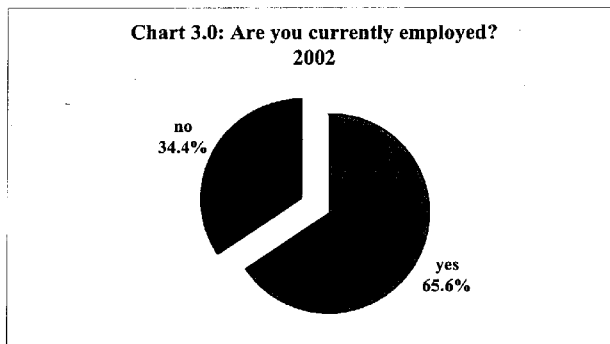
- Almost 8% (7.8%) of students responded with favorable impressions:
 - They're good, but it depends on the person.
 - It's a good thing to offer.
 - I have no problem with them. They have good options.

Employment

Prevalence of Student Employment

Students in both 2002 and 2000 were asked if they were currently employed (see Chart 3.0 – 2002 data only).

- Close to two thirds of students in both years (65.6% in 2002 and 63.5% in 2000) were employed.
- In 2002, 59.2% of those with a 3.0 GPA or better were employed compared to 71.5% of students with lower than a 3.0 GPA (data not shown).

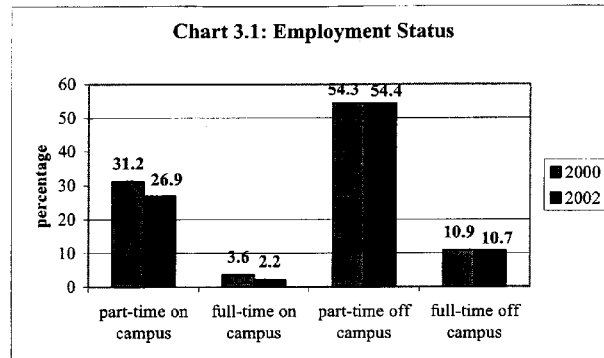


(2002: n=402)

Employment Status and Hours Worked

Of the 402 students who were employed in 2002, they reported holding the following jobs (see Chart 3.1):

- Approximately 54% (54.4%) of students held part-time off-campus jobs.
- Another 26.9% held part-time on-campus jobs.
- Approximately 2% (2.2%) of students held full-time on-campus jobs.
- Almost 11% (10.7%) held off-campus full-time jobs.



(Percentages do not equal 100% - "other" category not included
2000: n=221; 2002: n=401)

Students who were working were also asked about the number of hours they worked per week, their hourly wages, and their reasons for working (see Table 3.0 – 2002 data only).

- In 2002, 45.1% of working students (29.5% of entire sample) reported working between 1 and 19 hours a week compared to 34.8% (22% of entire sample) in 2000 (data not shown).
- In 2002, 9.7% of working students (6.4% of entire sample) reported working more than 40 hours a week compared to 14% (8.8% of entire sample) in 2000 (data not shown).
- Working students worked an average of 20.82 hours while students worked an average of 22.62 hours in 2000.

Table 3.0: Hours worked per week – 2002

By percent	Percent of those who work (n=401)	Percent of the sample (n=613)
0-10	19.5	12.7
11-15	20.9	13.7
16-19	4.7	3.1
20-29	30.9	20.3
30-39	14.2	9.3
40-49	9.5	6.2
50 or more	0.2	0.2

Hourly Wages

Students reported on their hourly pay rate (see Table 3.1).

- The average hourly wage was \$8.73 for students in 2002 and \$8.24 for students in 2000. The median hourly wage in 2002 was \$8.00.
- In 2002, 38.3% reported making between \$6.01 and \$8.00 compared to 46.1% in 2000. Whereas, in 2002, 26.7% reported making between \$8.01 and \$10.00 compared to 15.2% in 2000.

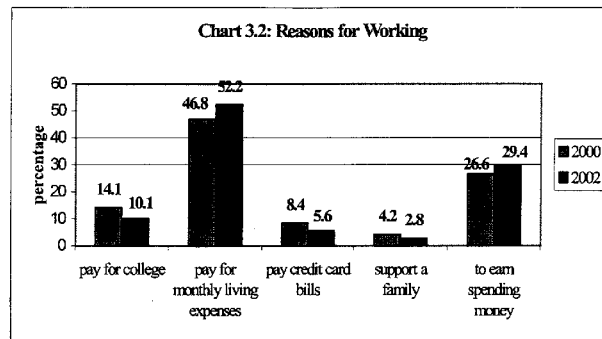
Table 3.1: Hourly pay rate

By percent	2000 (n=222)	2002 (n=386)
Under \$5.15	5.3	7.3
\$5.15-5.50	8.0	3.1
\$5.51-6.00	9.6	4.7
\$6.01-6.50	10.6	7.0
\$6.51-7.00	11.6	10.1
\$7.01-7.50	11.3	9.8
\$7.51-8.00	12.6	11.4
\$8.01-9.00	4.6	16.1
\$9.01-10.00	10.6	10.6
\$10.01-15.00	11.9	14.8
\$15.01-20.00	2.3	3.6
\$20.01 and above	1.7	1.6

Reasons for Working

Students were asked about the primary reason for maintaining a job during the academic year. The data suggests that students are increasingly working to pay for monthly living expenses while working less in order to pay for college, pay off credit card bills, and support a family (see Chart 3.2).

- Over half of the students (52.2%) who were employed in 2002 reported that their primary reason for working was to pay for monthly living expenses compared to 46.8% in 2000.
- Approximately 29% (29.4%) of students in 2002 responded that they worked in order to have spending money compared to 26.6% in 2000.
- Another 10.1% of students in 2002 said they worked in order to pay for college whereas 14.1% said this in 2000.
- In 2002, 5.6% (8.4% in 2000) of students worked to make their credit card payments, and 2.8% (4.2% in 2000) to support a family.



(2000: n=263; 2002: n=395)

APPENDIX

Demographic Comparisons

In Table 6.0, the demographics of the population are presented along with the demographics of the 2002 survey respondents.

When comparing the population of OSU students to the students who participated in the survey, we found that generally the sample was representative of the population with the exception of two areas – age and GPA. Students under 21 years of age and with higher GPAs were more highly represented in the sample than in the population.

Table 6.0: Comparisons between Population Parameters and the 2002 survey

percentage	Population (n=32515)	Spending Habits Survey Sample (n=613)
Rank		
1	20.1	22.2
2	23.5	23.2
3	24.1	23.5
4	32.4	31.2
Age		
Under 21	45.2	49.6
21 and Over	54.8	50.4

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PREPARED STATEMENT OF MICHAEL E. STATEN

DIRECTOR, CREDIT RESEARCH CENTER
 McDONOUGH SCHOOL OF BUSINESS, GEORGETOWN UNIVERSITY
 SEPTEMBER 5, 2002

Introduction

Good morning, Chairman Sarbanes and Members of the Committee. My name is Michael Staten. I am Professor of Management and Director of the Credit Research Center at the McDonough School of Business at Georgetown University. The Center is a nonpartisan, academic research center devoted to studying the economics of consumer and mortgage credit markets. Over its 28-year history the Credit Research Center has generated over 100 research studies and papers, most of which examine the impact of public policy on credit markets. Throughout its history, the Center's research program has been supported by a mix of grants from the public sector (that is, National Science Foundation, Federal Trade Commission) and unrestricted private sector grants from foundations and corporations made to its host university on behalf of the Center. I have served as the Center's Director since 1990.

As students head back to college campuses this fall, a perennial debate will resume over the problems some of them will have in handling their credit cards. Marketing research surveys indicate that about 57 percent of all full-time undergraduates own a general-purpose credit card (Visa, MasterCard, Discover, American Express) in their own name.¹ From the sad anecdotes portrayed in the news media, one could get the impression that students are awash in debt, victims of relentless marketing by big credit card companies and incapable of controlling their urge to charge.

Along with my co-author, Professor John Barron (Purdue University), I recently completed a study for the Credit Research Center at Georgetown University that offers new evidence on student card usage, evidence that paints quite a different picture.² The report provides benchmark measures of college student credit card usage. The analysis utilizes a pooled sample of over 300,000 credit card accounts randomly selected from the portfolios of 5 of the top 15 general-purpose credit card issuers in the United States.

Discussions of college student card usage in both the policy arena and the popular press have been based mostly on anecdotes and self-reported survey evidence. To our knowledge the Georgetown study marks the first time account-level information has been pooled across major issuers to create a statistically reliable database for examining the actual usage and performance of credit cards marketed to college students. Consequently, the results should be helpful in grounding subsequent discussion on facts rather than anecdotes.

In the remainder of my testimony, I would like to share with you some results from our study. There is much evidence that college students are as responsible as the rest of us when it comes to their card usage behavior, and are more sensible in some respects. Whether or not they use credit cards wisely is a subjective question that depends upon your own views of how credit and credit cards should be used. But a dramatic lack of sophistication among students in handling this powerful payment tool is not apparent in the data.

College Students and Credit Card Usage

The analysis compares behavior across three types of accounts: Those opened through college student card marketing programs; those opened by young adults aged 18–24 through normal marketing channels (for example, not through dedicated student marketing programs); and those opened by older adults through normal marketing channels. All accounts analyzed in this study were opened during the period mid-1998 until early 2000 and were observed over a 12-month period during 2000–2001.

The analysis follows a study plan that was originally proposed by the U.S. General Accounting Office in response to a request from Members of Congress, but was never executed by GAO due to budget constraints. The study is similar to the GAO study plan in the range of cardholder behaviors to be examined and shares its focus on comparing the activity of recently-opened student accounts to the experience of accounts opened recently through conventional (nonstudent) marketing programs.

¹*Financial Services*, Student Monitor, Ridgewood, NJ, Spring 2001.

²*College Student Credit Card Usage*, Working Paper #65, Credit Research Center, McDonough School of Business, Georgetown University, June 2002 (available at www.msb.edu/prog/crc and held in Senate Banking Committee files).

One of the first findings of the study was the fact that any random sample of open accounts contains a significant number of accounts that exhibit no activity during a 12-month period. Such dormant or “inactive” accounts may reflect a credit card being held in reserve by the owner for an emergency, or a credit card that has been discarded or destroyed by the owner without the issuer being notified. The incidence of such “emergency/destroyed” cards varied substantially across the five companies in our sample, sufficiently that we could not determine a reliable “average” rate of inactivity among open accounts. Nevertheless, it is clear that any discussion of student credit card usage that makes projections of student card debt based on the number of credit cards owned (for example, the number of open accounts) will likely overstate the actual use of credit cards.

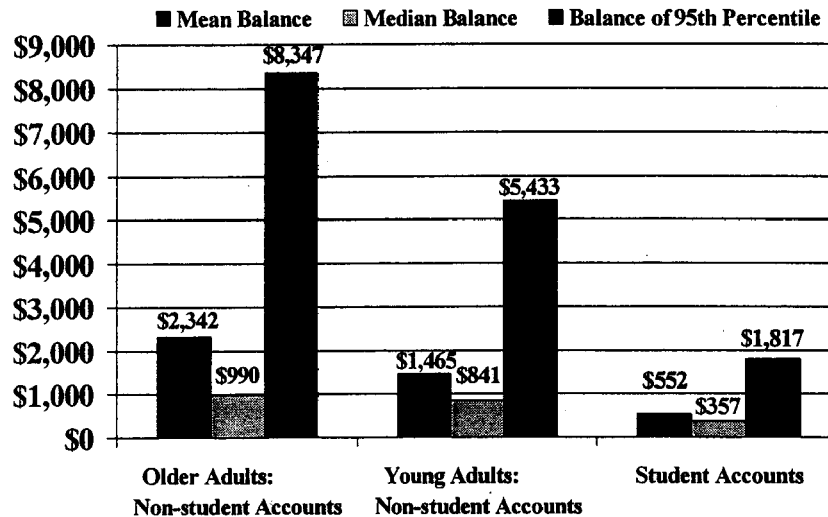
The analysis in the report is restricted to a sample of more than 300,000 active accounts, each of which was followed for a 12-month period during 2000–2001. Active accounts are defined as accounts with charge activity, payment, positive balance, or some other posting of activity at any point during the observation period. Given this large sample size, the random sampling approach adopted by the participating companies, the market share and national scope of the companies providing the data, and the use of weights to reflect the relative number of cards issued across the various groups by each company, *the findings reported below can be considered representative of accounts opened at major credit card issuers during the period from mid-1998 through early 2000 that were active during the 2000–2001 period.*

Results

Credit Balances, Credit Limits, and Utilization Rates

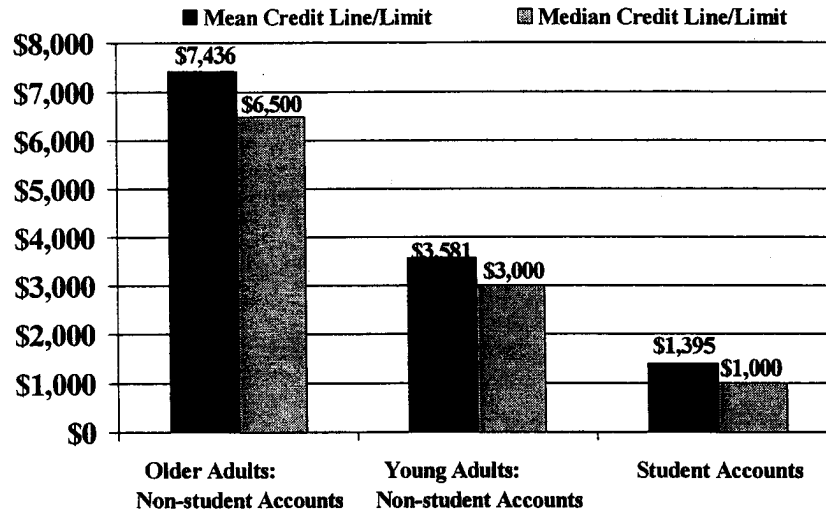
- The average balance of an active student credit card account (\$552) is approximately one-third the size of the average balance of an active nonstudent account of a young adult (\$1,465), and one-fourth the size of the average balance of an active older adult account (\$2,342).

Balance by Type of Account



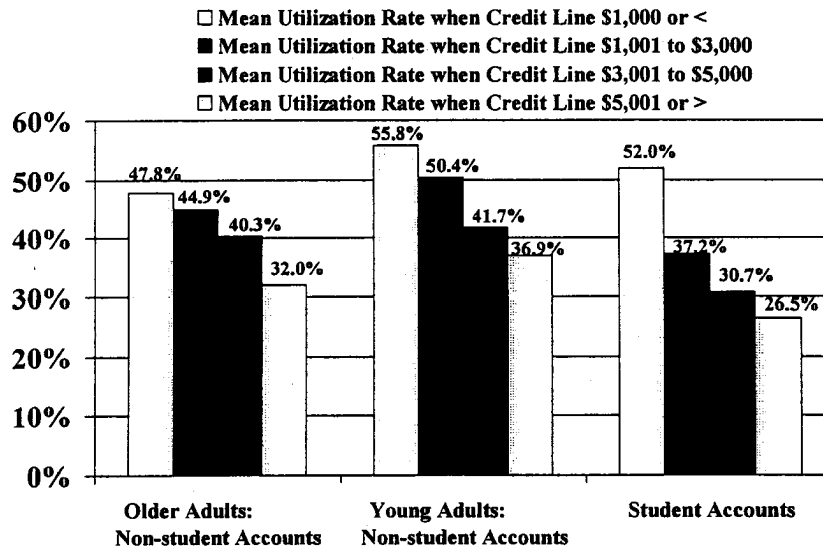
- The mean credit limit for student accounts (\$1,395) is less than 40 percent of the mean for nonstudent accounts of young adults (\$3,581) and less than 20 percent that of adult accounts (\$7,436).

Credit Limits by Type of Account



- At 45 percent, the mean utilization rate across all student accounts (percent of credit line tapped) is higher than the utilization rate for older adult accounts (36 percent) and about the same as the utilization rate for nonstudent accounts held by young adults (46 percent), despite much higher credit limits for these other groups. Among cardholders in all three groups who have credit limits above \$1,000, student accounts have significantly lower utilization rates.

Utilization by Size of Credit Line and Type of Account



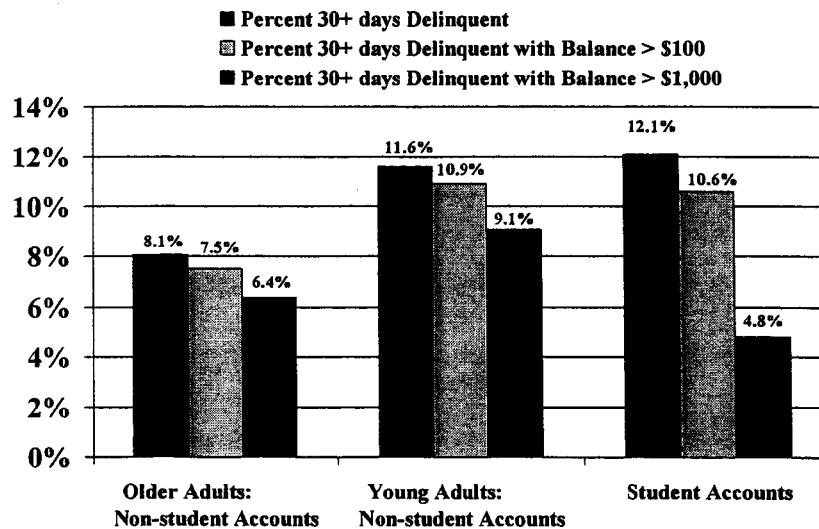
Card Usage: Cash Advances, Paying the Full Balance, and Finance Charges

- Student accounts are substantially less likely to use their credit cards for cash advances.
- Among accounts with positive balances, the student accounts are somewhat more likely in any given month to pay the prior balance in full.
- A student account is less likely to incur finance charges in a given month, but more likely to incur fees, either for being late or for being over the credit limit. The average finance charge incurred on student accounts in a given month is \$7. Only 5 percent of student accounts incur a finance charge greater than \$26 in a given month.

Delinquency Rates and Charge-offs

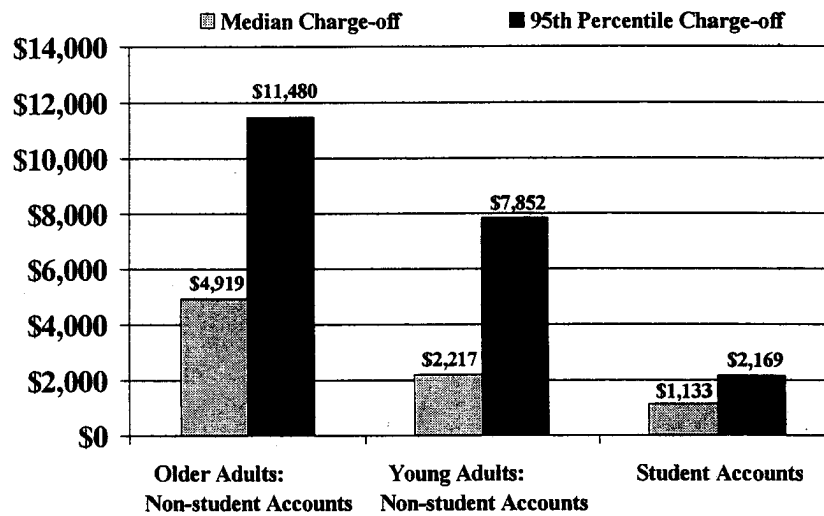
- Delinquency rates on both student accounts and young adult, nonstudent accounts are higher than for older adult accountholders. In a given month, 12 percent of active student accounts are past due, versus about 11 percent for other young adults under age 25 and 8 percent for adults 25 and older. However, among student accounts that have large balances (that is, accounts with an outstanding balance greater than \$1,000) student account delinquency rates are substantially lower than for similar accounts held by other young adults under age 25.

Delinquency Rates by Size of Balance and Type of Account



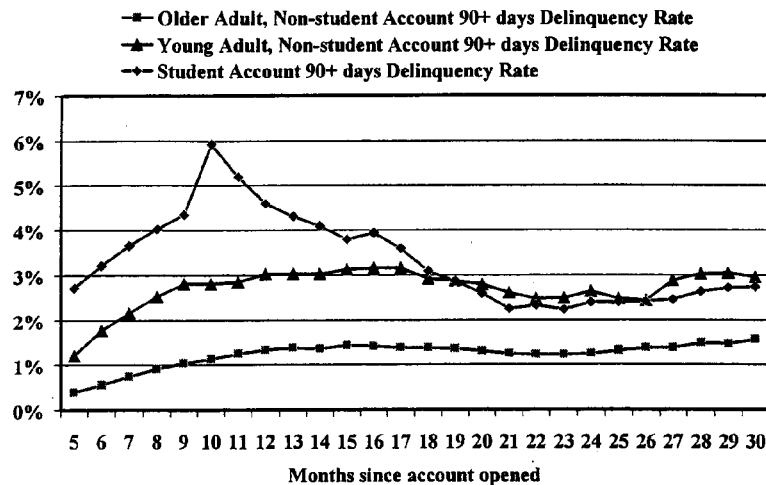
- About 3.6 percent of student accounts charge-off annually, compared to 2.8 percent of young adult, nonstudent accounts and 1.6 percent of older adult accounts. The median dollar amount charged off on student accounts is \$1,133, vs. \$2,217 for young adult, nonstudent accounts and \$4,919 for older adult accounts. Large-dollar charge-offs are not common among student accounts given their substantially lower average balances. Considering only charge-offs that exceed \$5,000, student account losses are rare. For every 10,000 accounts of each type, the dataset indicates there would be 77 adult accounts with charge-offs exceeding \$5,000 over a 1 year period, 58 such charge-offs for nonstudent accounts of young adults, but only 2 such charge-offs for student accounts.

Size of Charge-offs by Type of Account



- Over time, student accounts mature and performance converges to that of young adult, nonstudent accounts. More specifically, within about 18 months of the account opening date, student accounts exhibit a frequency of serious delinquency (90+ days) and a likelihood of charge-off nearly identical to that of nonstudent accounts held by cardholders under the age of 25.

Delinquency Rates (90+ days) on Active Accounts
By Number of Months Since the Account Opened



Summary

The data indicate that, on average, accounts marketed to college students have lower credit limits and smaller balances than accounts of similar age that were opened by young adults through issuers' conventional (nonstudent) marketing programs. Compared to accounts recently opened by older adults (age 25 and older), student balances and limits are substantially lower.

About 88 percent of student accounts are current (for example, pay their accounts as agreed) in a given month, compared to about 88 percent of young adult, nonstudent accounts and 92 percent of older adult accounts. Although recently opened student accounts have a higher likelihood of charging-off compared to other groups, the dollar amounts at risk on delinquent accounts and the actual losses on charged-off accounts are substantially lower. Further, the delinquency and charge-off experience for student accounts becomes similar to nonstudent accounts of young adults for accounts open more than 1 and 1½ years. These findings are consistent with issuers' statements that they establish student accounts with relatively low credit limits with the expectation that the large majority of new, young cardholders will learn how to manage a credit card, to establish a credit history, and to become longer-term customers.³

Conclusions and Recommendations

I understand that this Committee is interested in the financial literacy of young people. As you know, national coalitions of industry, Government, and nonprofit organizations have committed substantial resources to such efforts in recent years. They have already created a tremendous range of educational materials and programs on personal finances for both children and adults, with the promise of more to come. I believe these efforts are essential to the long-term goal of improving the money management skills of most Americans who are faced with an increasingly sophisticated array of financial service products.

Clearly, there are some college students who build up large balances that could well lead to payment problems, but that is true of any cardholder population. I certainly see no evidence from the Georgetown study that students are misusing cards

³ *College Students and Credit Cards*, U.S. General Accounting Office, Report GAO-01-773, June 2001, pp 35-40.

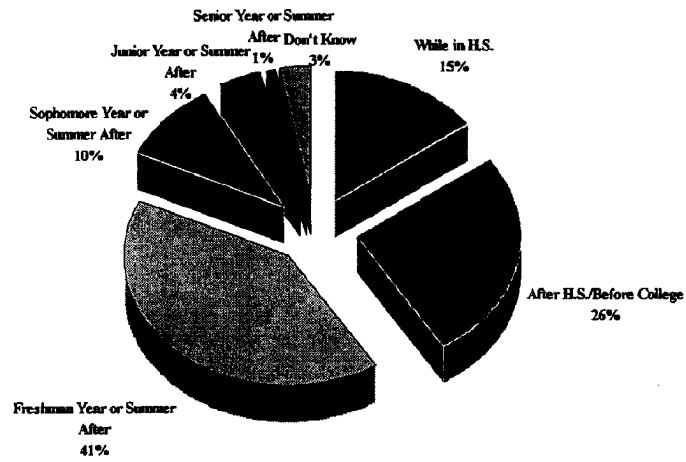
so frequently as to warrant singling them out as a group for special protections from marketing solicitations.

In that regard, I am concerned about some proposals that have been circulating at both the State and Federal level which would either limit or ban the marketing of credit cards to college students. Proposals that would ban on-campus marketing of credit cards seem particularly misguided, given the available evidence from annual marketing surveys about how and when students obtain their cards. For students who own a general-purpose credit card in their own name, the largest single source in 2001 was direct mail offers, accounting for nearly 40 percent of all cards.⁴ Only about 20 percent of cards were obtained from sources on campus (take-one displays; issuer reps at “tabling” events). The same survey revealed that nearly 40 percent of undergraduates in 2001 who owned a general-purpose credit card in their own name said they received their first one before they arrived on campus their freshman year.

Consequently, restrictions that would ban on-campus marketing would not stop the majority of students from acquiring cards. Moreover, such restrictions would eliminate probably the only opportunity for any face-to-face contact between a card issuer representative and the cardholder. Present marketing practices may not take full advantage of this opportunity for distributing educational materials and messages, but an outright ban on such marketing eliminates the opportunity.

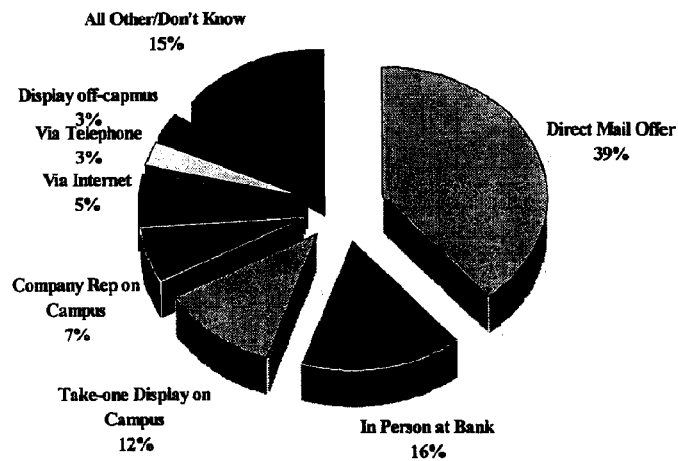
⁴*Financial Services*, Student Monitor, Ridgewood, NJ, Spring 2001.

When First Card in Own Name was Obtained



Source: Student Monitor, Spring 2001 Survey.

Methods of Obtaining General Purpose Cards in Students' Own Name



Source: Student Monitor, Spring 2001 Survey.

Even if card marketing to students could be legislated away, such action does not seem to be in students' best interest. The 4 years that most undergraduates spend in school are arguably the best time to get acquainted with credit cards. The undergraduate experience gives young adults an opportunity to transition from life at home to life on their own. Most students spend 4 years with one foot at home and one foot in the real world, learning about one but sheltered by the other. Learning personal financial management is part of that real-world experience.

A general-purpose credit card offered with relatively low limits gives students an introduction to the most powerful and versatile payment device on the planet. Think of it as the "training wheels" approach to learning to use a credit card. Students learn that their wants usually exceed their resources, and that they must manage that tension. They learn that a purchase made with plastic today and forgotten tomorrow can come back to haunt them at the end of the month with the arrival of the credit card statement. They learn that the credit card company does not forget that you have made the purchase, nor does it forget if you do not pay. For those who choose to revolve, a balance that seems to fall far too slowly month after month kindles a new urge to find gainful employment during the summer, or after graduation.

All of these lessons must be learned eventually. I believe it is better to learn them with the relatively small exposure permitted by the lower limits that are typical of cards obtained through college student marketing programs. Postponing the lesson until after graduation would raise the financial stakes and put young consumers at even greater risk.

It surely cannot be too difficult for our best and brightest youth to learn about cards and card marketing while in college. Artificial limits on credit card marketing to this group will not improve their financial literacy. The wiser course seems to be to facilitate student access to the information they need to make sound decisions about using credit and the importance of maintaining a good credit history.

I thank you for the opportunity to appear today and would be happy to answer any questions.

PREPARED STATEMENT OF JONATHAN MILLER

TREASURER, THE COMMONWEALTH OF KENTUCKY

SEPTEMBER 5, 2002

Mr. Chairman, Members of the Committee, I appreciate the opportunity to testify today, and I am particularly grateful that you are shining a spotlight on the important issue of financial literacy among college students.

It is fitting that the hearing is being held today, because, as we speak, tens of thousands of young men and women across the country are, for the first time, leaving the protections of home and entering college. The first few weeks of college have always presaged many rites of passage. Choosing a major. Attending your first football game. Rushing for a fraternity or sorority.

But a new rite of passage has emerged recently for college freshmen on campuses across the country. Applying for your first credit card.

Credit Card Marketing on College Campuses

The opportunities are endless. If you have been to a ball game or a public event recently, you likely have been barraged by credit card companies offering some gift or service in return for filling out an application. For college students, this is almost an everyday occurrence. Beginning with freshmen orientation, at activities fairs, in student unions and lunchrooms, in the campus bookstore, even in the privacy of their dorm rooms, students are tempted by unavoidable offers from dozens of different credit card companies. It is rare to find a bulletin board on campus that is not nearly covered by card offers.

The sales pitches can be irresistible. Thousands of dollars of "free money" if you just fill out this form. And by the way, here is a T-shirt or a chance to win an enticing vacation. The offer might come from a friend who needs your help in completing his quota of completed applications. The card might come with a so-called "teaser" rate—a low introductory interest rate that looks too good to be true—unless, of course, you read the fine print and find out that the rate balloons dramatically within a few months. As the General Accounting Office (GAO) reported last year, some credit card "vendors created a carnival atmosphere with loud music and games . . . mask[ing] the responsibilities of owning a credit card, especially since there was no discussion of the consequences of misusing a credit card."

In some circumstances, the solicitation turns ugly. Last year, the Kentucky State Treasurer's Commission on Personal Savings and Investment held a hearing on the issue of credit cards on college campuses. A University of Kentucky student testified that one credit card marketer pushed his way into her freshman dorm room and would not leave until one of her roommates filled out a credit card application. This young woman, for obvious reasons, felt violated. The GAO study revealed that this example is not unique: Students reported that vendors followed them around campus when their initial sales pitches were rejected. Sometimes even students are manipulated into revealing personal information in exchange for gifts.

The economic incentives that encourage these types of aggressive credit card solicitations are enormous. Many universities, struggling to fund vital programs because of State budget cuts, have signed multimillion dollar contracts to give a particular company exclusive rights to market its credit cards on campus. Student organizations raising funds to pay for their expenses have been recruited as sales agents by credit card companies—these groups often are compensated \$25–\$200 a day to table the student union and are paid \$1–\$5 for every completed application. Peer pressure has become an invaluable sales tool.

Impact of Credit Cards on College Campuses

For many college students, owning and using a credit card does not pose any serious problems and offers some advantages. For instance, in an emergency situation, where cash is not available, a credit card can be invaluable. When properly educated about their use, credit cards can be a useful tool to learn about personal finance and budgeting. Particularly when parents are involved, young people can be taught important lessons about financial responsibility and accountability. Credit cards, more-over, offer a vehicle, albeit an imperfect one, for young people to develop a positive credit rating. For the majority of students, credit card debt is not a problem—recent surveys revealed that almost 60 percent of students pay their credit card balances in full every month.

However, for a significant and growing minority of college students, credit card use and misuse can be devastating. Without proper education on credit card use, and with only self-serving, on-campus promotions instructing them, students often sign up for numerous credit cards, making purchases up to the credit limit on each. In a telling study by the Public Interest Research Group (PIRG), it was revealed that students who obtained credit cards at student union tables had more cards and higher debt balances than those that signed up elsewhere.

Instead of the false promise of “free money,” students wind up building mountains of credit card debt before they even have an income stream to pay for it. Students are tempted by promotions on campus and through the media to live beyond their means—many do not understand the consequences of incurring excessive debt and making late payments, both of which can severely damage their credit ratings or their financial health in general.

The GAO report concluded that because of their inexperience, college students are more likely than other credit card customers to accumulate significant debts. That is why those companies that sign up cardholders with higher risks of default—in exchange for higher interest rates—often target college students. Students see low, seemingly easy minimum payments, but do not realize they could spend much of the rest of their lives repaying their debts.

Let me give you one example. Suppose a student today built up a credit card balance of \$3,000 on a credit card that charged a 19.8 percent interest rate. If that student never made another purchase, and dutifully made the minimum payment each month, it would take her 39 years to repay that debt. In this example, the student would have to pay out over \$10,000 in interest—on only a \$3,000 balance.

Our Commission took testimony revealing that this was not an uncommon experience. One Kentucky student built up over \$6,000 in debt in her freshman year, and was still trying to pay it off 4 years later, having already paid more in interest than what she put on the card. Various studies revealed that the average student credit card debt ranges from \$500 to more than \$3,000. Meanwhile, in 1999, a record 100,000 Americans under the age of 25 filed for bankruptcy.

The impact on students can be more than financial. My Commission received testimony that the stress of credit card debt has significant emotional, even physical effects on these young adults, compounding the stress of leaving the shelter of home and family. One Indiana administrator reported that they “lose more students to credit card debt than academic failure.” And in an extreme case, a National Merit Scholar headed for law school was reported to have hung himself in his closet after racking up more than \$14,000 in debt on twelve different credit cards.

The impact on students also poses numerous long-term problems. With many college graduates already facing significant student loan debts, the added burden of

growing credit card balances can leave many young men and women entering the workforce with seemingly desperate debt problems. As a result, many young people are forced to choose jobs solely on the basis of the starting salary offered, without regard to suitability or personal satisfaction. This leads to further economic problems for the young worker when the job situation worsens, increasing the cycle of debt and credit card dependency. It also appears to have the effect of shrinking the pool of otherwise eligible and willing applicants for socially important, but less lucrative entry level jobs in fields such as education and law enforcement.

Financial Illiteracy in the United States

It would be too easy, and in fact unfair, to pin the entire blame for this growing phenomenon on the credit card companies and their representatives. While I believe that some regulation of credit card marketing is necessary—and I will address these reforms later—the problem is much greater than this. Indeed, credit card misuse on college campuses is just a symptom of a much greater problem plaguing the Nation—the financial illiteracy of much of America.

Our education system is, in many ways, the envy of the world. Yet the same schools that have produced brilliant scientists, physicians, and poets have also produced generations of financially illiterate Americans. We teach our children to master such difficult mathematics concepts as trigonometry and algebra, but we do not teach them how to balance a checkbook. Many young people can discuss with great insight the history of ancient civilizations, but are not cognizant of their own credit histories or the significance of their credit reports. And as is clear by my earlier remarks, admission to college requires good grades and high scores on standardized tests, but no specific knowledge on how to use—or not use—a credit card.

It is important to note that financial illiteracy is not simply a problem faced by our youngest generation of Americans. In fact, it is an epidemic. When the country's national savings rate during a period of unprecedented prosperity dips below 1 percent, and when 12 percent of Americans have no retirement savings whatsoever, we realize that financial illiteracy could leave many of America's seniors desperately needing financial assistance. When a growing number of individuals—particularly the poor, elderly, and minority groups—fall victim to the scams of predatory lending, we realize that financial illiteracy leaves many Americans vulnerable to the loss of their homes or retirement savings. And when the total household debt reaches \$7.3 trillion; with an average credit cardholder having over \$8,000 in debt, we realize that financial illiteracy has a devastating effect on our Nation's economy.

There are many organizations and individuals across the country trying to combat the growing problems posed by financial illiteracy. Groups such as Junior Achievement and the National Council on Economic Education have developed excellent curricula for promoting financial literacy among students of all ages. The Consumer Federation of America and Cooperative Extension have joined to create "America Saves," a national program that promotes sound personal financial practices in several large cities. Additionally, many of my colleagues have developed outstanding economic educational initiatives, such as Delaware Treasurer Jack Markel's private-public partnership, "The Money School" and Ohio Treasurer Joe Deters' free-to-the-public "Women and Money" seminars. These valuable programs, however, only reach a small minority of our population. And despite these efforts, financial illiteracy has grown over the past 25 years—a standard financial literacy test demonstrated a drop from a 57 percent average score in 1977 to 52 percent in 2000.

Legislation at the State and Federal level has been helpful, but falls far short of solving these problems. Kentucky's historic education reform of the late 1980's requires financial literacy instruction for all students, but most public schools in the State fail to address the subject, often because the teachers are uncomfortable lecturing on a topic with which they have little familiarity. The President's recent "No Child Left Behind" initiative allows for grant money to promote financial literacy initiatives, but these programs are forced to compete with much more pressing educational needs such as reduction of class size and raising teacher pay.

Kentucky's Experiment—Owensboro Saves!

My Commission on Personal Savings and Investment took a hard look at this growing problem and devised a potential solution. Realizing that we could not fix all of the problems created by financial illiteracy in the State in one fell swoop, we decided instead to gather our resources and focus our efforts on one community: Owensboro, a small city within a county of 90,000 residents.

On October 2, we will be launching Owensboro Saves!, a project uniting the entire community's leadership—from elected officials to school superintendents, from college presidents to constituency group activists, from labor leaders to Chamber officials and key employers. This public-private partnership will sponsor programming

over the course of the next year to promote better financial literacy among all residents of the region, of all ages and incomes. We will host seminars on how to avoid becoming a victim of predatory lending and how to complete an Earned Income Tax Credit form. Volunteers will become money mentors for residents struggling to save and invest. Activists will work with Catholic Charities to develop an Individual Development Account (IDA) program to enable the working poor to develop assets for buying a home, saving for college, or starting a business. And we will hold a free “Women and Money” seminar, providing free advice to area women—who earn less, receive fewer retirement benefits, and live longer than men.

But even more significantly, we hope to initiate permanent educational initiatives to improve the region’s financial literacy. Working with the nationally-recognized Daviess County School Superintendent Stuart Silberman, we will work to ensure that every elementary, middle, and high school in the county develops sound, mandatory financial literacy courses for its students, to be in place by the 2003 school year. We would like the financial literacy education to be systematic and widespread. To do so, we will build on existing resources and seek private funding and support from community businesses to refine curricula, publish educational materials, and train teachers on financial literacy instruction.

At the same time, we are working with officials from the four institutions of higher education in Owensboro to develop strong financial literacy curricula for college freshmen. It is my goal that every incoming student will be required to take a mandatory financial literacy course upon matriculation. In the meantime, we will develop with school administrators a code of conduct for credit card solicitation to include this mandatory education as a prerequisite for owning a credit card.

We are aware that we will see both successes and failures with this experiment. But our goal is to find out what works, and then to build a model that we can use in communities across the State, perhaps around the Nation. It is my belief that only through an intensive partnership of public officials and civic leaders can we effectively tackle the growing problem of financial illiteracy plaguing the country, and in particular, among our Nation’s youth.

Legislative Recommendations

Our Commission also believed that some legislation was necessary to help combat the growing problem of credit card abuse on our college campuses. To better protect our young people, the Commission found that several actions need to be taken in Kentucky, through legislative, administrative, and/or programmatic means:

- Financial literacy should be taught in every elementary, middle, and high school classroom in the State. Principals and teachers can draw on existing curricula and resources, such as provided by the Kentucky Council on Economic Education, the Cooperative Extension Offices and/or the Kentucky Bankers Association.
- Mandatory, meaningful financial literacy courses should be offered during freshman orientation of every Kentucky college or university. Commission members will offer their expertise to help design suggested curricula, in cooperation with the Council on Postsecondary Education (CPE) and the Association of Independent Kentucky Colleges and Universities (AIKCU).
- Credit card companies should be required to register with colleges and universities in order to solicit on campus, and to abide by a Code of Conduct governing solicitation methods. This Code should promote full disclosure of credit card terms and prohibit the more egregious marketing practices, such as dormitory room solicitations and the offering of prizes, gifts, or other monetary incentives to encourage applications from college students. This Code should be developed by the State’s colleges and universities, with assistance offered by the Commission and organizations such as CPE and AIKCU.

As a first step toward implementation of the Commission’s recommendations, Commission Chair and State Representative Susan Westrom introduced House Bill 298 in the 2002 legislative session. The legislation would have required Kentucky colleges and universities to develop codes of conduct for credit card solicitations on college campuses prohibiting practices such as free gifts. It also instructed these schools of higher education to require mandatory debt education and counseling sessions for incoming students. There was no ban on credit cards or even on marketing; we recognized that such solutions would be ineffective since any one can be reached through the mail or off-campus, where there would be no ability to monitor. Rather, the universities—who supported this measure—would be charged with ensuring the best interests of their students.

House bill 298 sailed through the State House unanimously and passed a Senate committee without opposition. However, in the last few days of the session, the Senate leadership mysteriously did not allow House bill 298 to come up for a vote. This

failure has been all too common across the country—a GAO survey revealed that in the past few years, most credit card reform legislation in State legislatures has died the same way—buried in a committee, without an opportunity for legislators to cast an up or down vote.

I am very hopeful that as the public becomes more aware about this problem, pressure will be too strong for legislators in Kentucky and across the country to abandon this needed legislation. I am also hopeful that the rest of the country will join States like Arkansas, Louisiana, and Virginia who have addressed these issues on the legislative level.

But I believe more legislative action is needed—on the Federal level. Credit card companies are national, sometimes multinational conglomerates, and for any regulation to be effective, it needs to come from the U.S. Congress. These corporations have few ties to the university communities they target, and, as a result, are often unresponsive to local concerns.

I believe that Congress can and should impose a real code of conduct covering the actions of credit card companies on all of the Nation's college campuses—prohibiting incentives such as gifts, and banning the more aggressive sales practices such as the recruitment of student groups that use peer pressure to complete applications. Credit card companies should be forced to determine before they approve a card whether the student could even afford to pay off a balance. Teaser rates—low introductory rates that balloon into much higher rates after only a few months—should be restricted in marketing to college students.

Further, company disclosures should not be limited to the fine print of credit card agreements and solicitations, where fees and penalties are often hidden or obscured. All credit card materials should provide clear examples of how long it will take to pay off the maximum debt permitted when the cardholder makes only minimum payments, and examples of how much will be paid in interest by the cardholder maintaining a balance over time. This common sense type of information is currently provided by banks to borrowers obtaining a home mortgage, and it helps inform borrowers of the true long-term cost of their debt.

Still, we will only be able to fully combat this problem with a much more comprehensive effort of promoting financial literacy. Mr. Chairman, I urge the Members of this Committee, and I urge Congress to make financial literacy a high priority for American education. When you develop standards for our students and teachers to reach, please make knowledge of key financial concepts a requirement. And when you determine funding for our Nation's public schools and universities, please provide support for producing and publishing sound financial literacy curricula and training for our Nation's teachers.

A Public-Private Partnership

While such Federal measures will be valuable, a Washington mandate will not solve the Nation's financial illiteracy problem. Ultimately, the solution will come in communities such as Owensboro, Kentucky, Gaithersburg, Maryland or Terre Haute, Indiana, where community leaders must join in a public-private partnership to better educate their citizens. Local leaders—from the worlds of politics, education, and business—must join together to ensure that residents of their communities have a firm grounding in personal finance concepts.

But it will also require a concerted effort from those in the industries who profit from the accumulation of personal debt. In the process of my Commission's work, I have met with several representatives of the credit card industry. These individuals seem to be the same hard-working, ethical business leaders who have helped to make our Nation and our economy unparalleled throughout the world. And they have shared with me their sincere desire to protect our children from the unfair and aggressive practices of those "bad actor" credit card companies who they say are a small minority of their industry.

That is why I challenge the credit card companies to join us in our national effort to protect college students from credit card debt and promote financial literacy. Today's college students rarely review educational brochures and websites sponsored by the credit card companies, no matter how well-meaning or how comprehensive they may be.

Today, I challenge the credit card industry to put its money where its mouth is. I ask the companies to make a substantial monetary commitment to the development of mandatory financial curricula for our Nation's schools and colleges and to train teachers to provide effective instruction on these issues. We do not need to recreate the wheel—we simply should build on existing resources provided by the outstanding organizations that have been working on these issues. Funding can help us produce and publish materials that young people will read, understand, and apply to their financial behavior.

Similarly, I challenge all of those in the financial industry who profit from lending and investment to make similar commitments. While this will pose some upfront costs, in the end, our whole Nation will benefit from a more financially literate citizenry.

The only truly successful efforts in this area reflect what I believe is the proper role of Government. This is a problem that cannot be resolved by Government or private institutions acting alone. Instead, Government should help equip people and community organizations with the tools they need to solve their own problems. Through partnerships with private industry and community leaders, State, and Federal Government officials can make a significant impact in better preparing our citizenry for the 21st Century economy and the challenges it poses. Only by working together—elected officials, industry leaders, and community activists—can we tackle the problems posed by our Nation's financial illiteracy.

Ultimately, credit card debt is an issue of personal responsibility. But it is unfair to hold college students accountable for behavior when they are subjected to high pressure marketing tactics and do not have the financial literacy to make proper economic decisions. Once given proper education on credit card use and misuse, individuals will then be accountable for their own financial behavior. And by empowering our citizens with the skills to manage their finances effectively, we can help reduce our national reliance on social welfare programs and personal bankruptcy.

And maybe, a decade or so from now, there will be some new rites of passage for our Nation's youth. A rite of passage for every third grader to learn about the magic of compound interest and the importance of savings. A rite of passage for every eighth grader to study the stock market and American financial institutions. A rite of passage for every high school senior to take a course on family budgeting and income management. And finally, in some future September—before the football games, before the fraternity rituals—a rite of passage for every college freshman to be given solid instruction on credit and debt management to prepare them, as they leave their parents' nest, to build their own nest eggs.

COLLEGE STUDENTS AND CREDIT CARD FACT SHEET

Incoming College Students Lack Financial Knowledge

- Only 10–20 percent of high school seniors nationwide will have had any personal finance training by the time they graduate.¹
- *Eighty-two percent of high school seniors failed a 13-question personal financial quiz* examining their knowledge of issues like interest rates, savings, loans, credit cards, and calculating net worth.²
- A 2002 survey of high school seniors concluded: “High school seniors know even less about credit cards, retirement funds, insurance, and other personal finance basics than they did 5 years ago.”³

Credit Card Prevalence on Campus

- For the year 2001, 83 percent of undergraduate students had at least one credit card, a 24 percent increase from 1998.⁴
- Over half (55 percent) of college students acquire their first credit card during their first year in college.⁵
- Fifty-eight percent of college students report seeing on-campus credit card marketing tables for two or more days the first month of the semester.⁶
- Thirty-three percent of college students reported applying for a credit card at an on-campus table. Of these, 80 percent cite free gifts as a reason for applying.⁷
- From 1999 to 2001, twenty-four State legislatures proposed or enacted laws restricting credit card marketing on campus.⁸ One of these States, California, has enacted legislation that prohibits offering free gifts in return for applying for a credit card at community and State colleges.

College Students in Credit Card Debt

- Over 44 percent of college students carried a balance on a credit card during the 1999–2000 school year. Among those students, the average credit card debt was \$3,066, while the median credit card debt was \$1,435.⁹
- A random sample of students at George Mason University, conducted in 2002 by Professor Robert Manning, found that among sophomores, juniors, and seniors three-quarters had maxed out on at least one credit card.¹⁰
- The same survey found that of students with student loans, *more than two-thirds (68 percent) have used money from the loan to pay down credit card debt.*¹¹

Student Debt

- For the 2001–2002 academic year, the average annual cost—tuition, fees, room, and board—was \$23,578 at a 4-year private college, and \$9,008 at a 4-year public university.¹²
- In the 1999–2000 academic year nearly two in every three students—64 percent—had Federal student loans. In percentage terms, this represents an increase of more than 50 percent since 1992–1993.¹³
- At graduation, the average student holding student loans will have \$20,402 in total debt. Of this total, \$3,262, or 16 percent, will be credit card debt. Yet *more than one-third (34 percent) of the average college graduate’s monthly debt payment will go to servicing credit card debt.*¹⁴

Students in Their Own Words

- Debbie Alford, recent graduate of the University of Central Oklahoma: “My debt was a huge cloud hanging over me. I felt ashamed about having put myself in that position, but I should never have been able to get all those cards at such a

¹Jump\$tart Coalition; American Savings Education Council, www.asec.org.

²Americans for Consumer Education and Competition, National Survey of High School Seniors, February 2001.

³Jump\$tart Coalition, “From Bad to Worse: Financial Literacy Drops Further Among 12th Graders,” April 23, 2002.

⁴Nellie Mae, Undergraduate Students and Credit Cards, April 2002.

⁵GAO, College Students and Credit Cards, June 2001, GAO–01–773.

⁶USPIRG, A Road Map to Avoiding Credit Card Hazards, www.truthaboutcredit.org.

⁷USPIRG, The Credit Card Trap, April 2001.

⁸GAO, College Students and Credit Cards, June 2001, GAO–01–773.

⁹U.S. Department of Education, National Center for Education Statistics, 1999–2000 National Postsecondary Student Aid Study.

¹⁰Robert D. Manning, Gregory A. Guagnano, and Ray Kirshak, “Credit Cards on Campus: A Growing Collegiate Crisis or Benign Societal Trend?” September 2002.

¹¹Ibid.

¹²The College Board, Trends in College Pricing 2001.

¹³The State PIRGs’ Higher Education Projection, The Burden of Borrowing, March 2002.

¹⁴Nellie Mae, Undergraduate Students and Credit Cards, April 2002.

young age. When you are 18, you think you know what you are doing with finances, but you really don't." ¹⁵

- Shilpa Hardas, a University of Georgia graduate: "It is a whole new world when you first go to college. You see your name printed on a credit card and it is a sense of financial power. It is like people are willing to give you money." ¹⁶
- Christyna Lewis, a Louisiana youth: "A week after my 18th birthday I received about 10 credit card offers and I was still in high school." ¹⁷

CONSUMER BANKERS ASSOCIATION NEWS RELEASE

SEPTEMBER 5, 2002

CBA Financial Literacy Survey Shows Programs for College Students

Ninety-seven percent of banks responding to the Consumer Bankers Association's 2002 *Survey of Bank-Sponsored Financial Literacy Programs* sponsor or partner with a variety of financial literacy programs, with 45 percent supporting financial education programs for college students.

Of those banks that offer college-based financial literacy programs, most (72 percent) are aimed at the general student population, while 59 percent said they direct the programs to low- and moderate-income students and 47 percent said they were directed to minorities.

"The banking industry is providing many resources to promote financial literacy on campus," said Joe Belew, CBA President. "There is also widespread support of public school programs, with 87 percent of banks supporting programs in some way," he said.

Among many examples, MBNA America, the Nation's largest independent credit card issuer, developed the Student Financial Education Service (SFES), an educational program designed to provide credit education and counseling services to students and their parents.

MBNA presents a series of seminars at freshman orientations and campus events, has reached thousands of students and projects that it will double its audience in 2002. As a resource to parents, MBNA offers a mini-seminar at "parents weekend" to educate parents on how to raise financially smart kids. In addition, MBNA has recently partnered with College Parents of America to offer an alternative credit product where parents can control the use of their students' credit card.

Another institution, U.S. Bank, Minneapolis, MN, markets a broad range of bank services directly on college campuses. According to Jim Marshall, Senior Vice President, U.S. Bank, "It is our job as a community partner to assist college students with their financial affairs so when they graduate, they are financially responsible people. We want them in control of their finances, to be aware of their budget limitations, and to use U.S. Bank as a financial tool."

U.S. Bank has branches on several campuses, as well as a branch within five miles of 500 campuses. "Campus banking provides a wide variety of banking products that fit students lifestyles and makes it easy for them to manage their money," said Marshall.

AmSouth Bank, Birmingham, Alabama, has partnered with historically black colleges and universities (HBCU's) and public schools in low-income areas to offer seminars at 60 schools throughout the southeastern region. The program has reached 25,000 students, and is being expanded to reach 30,000 this year.

The CBA survey includes 68 bank and thrift institutions that hold 60 percent of the total bank and thrift assets in the United States. The complete study is available at CBA's website, www.cbanet.org.

The survey also provides details on programs to prepare people for homeownership, delivery financial literacy curricula to public schools and offer related services such as tutoring, deliver advice on small business development, and support credit counseling programs.

¹⁵ "The Lure of Easy Credit Leaves More Students Struggling With Debt," *Chronicle of Higher Education*, June 15, 2001.

¹⁶ "Georgia Undergraduates Are Among College Students Piling On Credit Card Debt," *Atlanta Journal-Constitution*, July 14, 2002.

¹⁷ "Credit Card Issuers Just LOVE Students," *News-Star*, Monroe, LA, June 30, 2002.



CUNA & Affiliates
A Member of the Credit Union System

**Credit Union
National Association, Inc.**

Madison, WI Office:
5710 Mineral Point Road (53705)
P.O. Box 431
Madison, WI 53701-0431
Telephone: (608) 231-4010
Fax: (608) 231-4874

Washington, D.C. Office:
601 Pennsylvania Ave. NW, South Bldg
Suite 600
Washington, D.C. 20004-2601
Telephone: (202) 638-5777
Fax: (202) 638-7734

Daniel A. Mica
President & CEO

September 5, 2002

The Honorable Paul S. Sarbanes
United States Senate
309 Senate Hart Building
Washington, D.C. 20510

Dear Mr. Sarbanes:

Congratulations on your hearing today focusing on the importance of financial literacy among college students. America's credit unions, which count more than 82 million consumer-members--including a large contingent of college students--are pleased to stand with you and the efforts of your committee to draw more attention to this important subject.

As you may know, credit unions have been making substantial progress in financial literacy efforts among America's young people *before* they become college students. Through a partnership with the National Endowment for Financial Education, and the USDA's Cooperative State Research, Education, and Extension Service, the Credit Union National Association (CUNA) and state credit union leagues have for the past two years sponsored the High School Financial Planning Program (HSFPP). The HSFPP introduces teens to basic personal finance concepts and demonstrates how they apply to everyday life. Through CUNA's involvement, The HSFPP (including materials) is offered free of charge to participating schools and other groups across the nation.

This past school year, credit union involvement has made a difference in the lives of more than 75,000 students nationwide--115 percent of our goal for the entire school year. In fact, it's an increase of 131 percent over credit union-inspired student involvement in the previous school year. Additionally, more than 750 schools nationwide were involved in the program, an increase of 82 percent from the previous year.

Credit unions across the country have stepped up to the challenge of teaching personal finance to high school students with this superior tool. For many of these teenagers, it's their last chance of getting basic financial survival skills before going out on their own as consumers. Certainly, this program is proving to be of substantial aid to these young people as they enter the world of higher education in the college ranks.

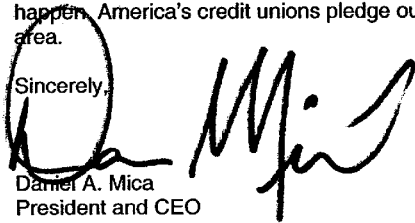


The Honorable Paul S. Sarbanes
September 5, 2002
Page Two

We expect to do even more in the school year that has just begun. Through this program, CUNA and credit unions have set a goal of reaching 100,000 students in 1,000 schools. It's an ambitious annual increase of 33 percent, but credit unions have shown that they are remarkably adept at promoting and supporting this program. With the help of Cooperative Extension Service educators, credit unions will be a growing positive influence on tomorrow's young consumers.

Mr. Chairman, we strongly believe that our goal through these efforts is the same as yours through today's hearing--to shine a light on the momentous value of improving financial literacy of our nation's youth, and to take the needed steps to make that happen. America's credit unions pledge our continuing support for your work in this area.

Sincerely,



Daniel A. Mica
President and CEO



CAMPUS SPECIAL EDITION

FALL 2002

PRESIDENT'S PAGE

When Student Debt Turns Deadly

By Harvey Warren, President, The National Consumer Council

Paarrty!!! It's hard to say no when you have a fist full of plastic. There's plenty of time to pay it off. But, if you pay minimums – that could be a lifetime.

Consider that 78% of all college undergraduates have at least one credit card, and 10% of those have balances of more than \$7,000. So, what? Well, **at 18% APR, if you pay the 2% minimums - and you are never late - it will take you 51 years and 9 months to pay off that \$7,000.** That's right, you'll be paying it off with your Social Security checks. But, that's not half as scary as the fact that you will have paid \$19,931.76 interest! Do the math for yourself at www.thenccc.org. Choose "Resources" and then choose the "Financial Calculator" courtesy of BankRate.com. Trust me, paying minimums isn't pretty.

You may have heard the news reports of Sean Moyer, the college student who killed himself having run up what he believed to be an insurmountable credit card debt. A University of Oklahoma junior, Moyer worked part-time in a department store. From the meager wages he earned he was given 12 credit cards! **He owed \$10,000 on those cards when he hanged himself in his bedroom closet.**

Sean died in February 1998, but he still gets credit card offers in the mail, his mother told CNN. "Pre-selected credit line of up to \$100,000 from Chase (Manhattan Bank)... He owed Chase when he died. And we get these at least once a month, so it never stops."

Around the same time, Mitzi Pool, called her mother crying and distraught. The University of Central Oklahoma freshman had lost her part-time job as a telemarketer. She was afraid that she could not make ends meet. Her mother tried to reassure the frantic 18-year old. Late that night, police called to tell her that Mitzi killed herself. Mitzi, whose weekly income rarely exceeded \$65, had received three credit cards and run up \$2,500 in balances. Her mother had no idea her

daughter was in trouble. "Credit cards and bills were spread out on her bed. That had to be what was on her mind."

Mitzi's mom concluded, **"The credit card companies target these young adults just like the tobacco industries. They lure them in and then they have them hooked.** Hooked for a long time. These debts can tear a family up. The parents have to bail them out, or they file for bankruptcy, or have a tragic ending like Janne (Sean's mother) and I have had. This has to stop."

On an average day college students are hearing from over 1,200 credit card vendors on campuses across America. The Iowa Attorney General's office issues a bulletin every year as registration begins. Part of their publication reads, "Students are flooded with credit card offers, often with "freebies" such as T-shirts, tote bags, hats, mugs and cash-back offers. The offers are tempting – credit cards can be convenient and may help some students start a good credit record – but credit cards also can plunge some people deep into debt and long-term credit problems."

Georgetown University sociologist Robert Manning has presented extensive research reporting, **"The unrestricted marketing of credit cards on college campuses is so aggressive that it now poses a greater threat than alcohol or sexually transmitted diseases.** Typically, students slide into debt through the extension of unaffordable credit lines, increasing education-related expenses, peer pressure to spend, and financial naiveté reinforced by low minimum monthly payments and routine increases in credit."

So the next time you are tempted to reach for that plastic – remember – credit is not a gift, it's a loan. A loan you have to pay back. Everybody wants a MasterCard® memory, but be warned, those memories could turn out to be anything but priceless.

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What are my Rights?	Back Cover

MINIMUMS: A MAXIMUM PROBLEM

By Harvey Warren, President, The National Consumer Council

California is well known as one of the leading states in consumer advocacy and protection. In July of this year the California Legislature - under the leadership of Speaker Emeritus Robert M. Hertzberg - will enact AB 865. Mr. Hertzberg summarized the bill in his publication, *The Gift That Keeps on Taking* as follows:

"Assembly Bill 865 requires retail credit card companies to tell you in writing the total interest cost and number of months it will take a customer who makes only the minimum payment to repay the balance."

"The bill also requires statements to include a toll-free customer service number consumers can call for personal credit account information. And consumers who pay only the minimum payment for six months will be sent information about their personal credit balance and credit counseling services available in their community, possibly enabling them to pay more than the minimum amount required and reduce their overall debt."

It has been the policy of the The National Consumer Council to consider hardship when consumers can't make more than their minimum payments consistently over a 24-month period. The State of California obviously believes, as do we, that paying minimum payments for extended periods of time is a sure sign that the consumer is on their way to financial disaster - bankruptcy. We anticipate that credit card companies will gradually come to the same conclusion that we have, minimums of 2% although attractive can lead many consumers into amassing more credit debt than they could possibly repay in a lifetime.

Please log on to: www.sen.ca.gov and go to the "Legislation" section for more details.

YOUR TICKET TO BUILDING A POSITIVE CREDIT HISTORY

Experian is one of the three major credit-reporting agencies. Here are some keys to building a positive credit history excerpted from Experian's Consumer Education Department publication titled "Reports on Credit." For more information visit their website or call (800) 947-7990.

- Be aware of your debt-to-income ratio. Creditors typically do not want more than 20 percent of your take-home pay to be spent on credit, excluding your mortgage.
- Have some credit but not too much. If you have paid one or more accounts as agreed, you have shown you can manage your finances responsibly.
- Only apply for the credit you need. Several recent inquiries may indicate you have opened new accounts that don't yet appear on your credit report.
- Keep your balances well below your credit limits. High utilization (balances close to credit limits) often indicates high risk on additional credit.
- Demonstrate stability. Some creditors consider your length of employment, length of residence, whether you own or rent, and if you have any savings.



For more information on credit reports, contact these credit-reporting agencies:

- **EXPERIAN:** PO Box 2002 ▪ Allen, TX 75013 ▪ 888-397-3742 ▪ www.experian.com
- **EQUIFAX:** PO BOX 740241 ▪ Atlanta, GA 30374 ▪ 800-685-1111 ▪ www.equifax.com
- **TRANS UNION:** PO Box 1000 ▪ Chester, PA 19022 ▪ 800-888-4213 ▪ www.transunion.com

MARKETING ON THE COLLEGE CAMPUS

What is financial literacy? Dr. Lew Mandell of the School of Management, Professor of Finance and Managerial Economics at Buffalo University discusses with me the results of his survey on how well high school students understand money.

There is something wrong with the way the credit card companies market to and maintain their customers. We are developing a clearer understanding of how customers get caught in the trap of too much debt. It seems that the road to bankruptcy – or debt resolution – begins with not understanding how to use your credit responsibly.

It is the mission of the National Consumer Council (NCC) to return America to a debt free standard of living. That journey begins with education. Education about the proper use of credit, financial literacy and the dangers of too much debt. In education as well as legislation, the NCC continues to emerge as a clear and balanced voice for consumers in the prevention and resolution of destructive credit abuse.

AN EXPERT'S REVIEW

By Dr. Lewis Mandell
University of Buffalo School of Management
Professor of Finance and Managerial Economics

Comments from his prepared speech
to Jumpstart:

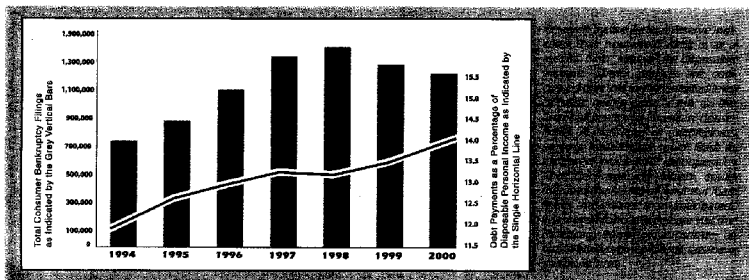
There has to be an understanding of the credit industry. Many of us become adversaries with the credit industry, adversaries of a sort. In other words the creditors are out there and they are trying to make money, and we as consumers are trying to save money. If we are going to buy a new car we have to understand that the car dealer is going to try and make as much profit as he or she possibly can. And our obligation as consumers is to try to limit that profit.

We need to understand how the credit industry works in order to know what's going to be coming



Dr. Lewis Mandell joins NCC President Harvey Warren at the Jumpstart General Meeting in Washington D.C.

our way so that we can defend ourselves... from my thirty some of years of teaching students at colleges and universities and as an economist I would say this is probably one of the most serious problems we have.



If you get in trouble:



**The National Consumer
Council**
(800) 990-3990
www.thencc.org

Resources

Financial Calculators
www.bankrate.com

**The American Bankruptcy
Institute**
www.abiworld.org

Consumer Information
www.ftc.gov

The Federal Trade Commission
www.ftc.gov

The Jump\$tart Coalition
www.jumpstart.org

Consumer Reports
www.consumerreports.org
click on the "more ratings" tab
see "Personal Finance"

Intuit
www.intuit.com

U.S. House of Representatives
www.house.gov/banking

American Bankers Association
www.aba.com

Credit Reporting
www.equifax.com
www.experian.com
www.transunion.com

FICO Credit Scores Online
www.quicken.com

The Suicide Prevention Center
www.suicidepreventioncenter.org

WHAT ARE MY RIGHTS?

by Mary Beth Harper, Financial Rescue Services

It has been my experience as a debt consultant that when people get into financial trouble, they actually worry about going to jail if they can't pay their debts. They're relieved when I remind them that debtors prison was outlawed over two hundreds years ago. That they don't have to handle the problems alone and they have every right to hire a representative to deal with their creditors.

When, however, consumers decide to handle matters themselves, they need to be aware of their rights, particularly in dealing with collections agencies. Federal Trade Commission regulations create a whole host of restrictions on debt collection practices. When consumers are familiar with those restrictions they will be confident and not intimidated.

CREDITORS CANNOT:

- Call you at work.
- Falsely imply that they are attorneys or government employees.
- State that you will be arrested.
- Threaten violence or bodily harm.
- Give false information about you to anyone, including credit bureaus.
- Misrepresent the amount of your debt or the legal nature of any mailed paperwork.
- Cash post-dated checks prematurely.
- Falsely indicate that they will seize, garnish, attach, or sell property or wages unless they actually intend to follow that procedure. It is unlawful to do so.
- Use obscene or profane language in their attempts to collect debt.
- Falsely imply that you have broken the law.
- Use the telephone to annoy you.
- Call before 8:00am or after 9:00pm without your consent.

For more information, log onto the
Federal Trade Commission website: www.ftc.gov

National Consumer Council
1025 Connecticut Ave. NW, Suite 102, Washington DC 20036

STATEMENT OF KELLY PRESTA

VICE PRESIDENT, VISA U.S.A.

SEPTEMBER 5, 2002

Visa U.S.A. appreciates the opportunity to offer comments to the Senate Committee on Banking, Housing, and Urban Affairs as it evaluates the importance of financial literacy among college students.

Since 1991, Visa has been at the forefront of financial literacy efforts by developing research-based tools and materials designed to help consumers at every stage in their financial life. Our program, Practical Money Skills for Life (available online at www.practicalmoneyskills.com) is a culmination of more than 10 years of work to deliver to consumers of all ages the best educational resources available.

PracticalMoneySkills.com is a free online resource designed to help educators, parents, students, and consumers practice better money management for life. Americans think that financial basics are as important as the three R's traditionally taught in school. In fact, according to a Visa survey, 77 percent of parents believe personal money management is a subject "very important" to their children's lives as adults—second only to writing at 89 percent. And since many young adults today graduate high school without even a basic knowledge of money management, like how to create and stick to a budget, many learn money skills through the school of trial and error.

To help today's youths and consumers of all ages become financially savvy, Visa has aligned with leading consumer advocates, educators, and financial institutions to launch a national program to improve the Nation's financial skills—Practical Money Skills for Life. Working with our partners the Jump\$tart Coalition for Personal Financial Literacy, the National Consumers League, BigChalk, Lightspan.com, *U.S. News and World Report* Classroom Program, U.S. Hispanic Chamber of Commerce, and the National Association of Consumer Agency Administrators, this cutting-edge Internet-based personal finance curriculum reaches more than 100,000 schools and 37 million students. These financial literacy tools are available in English and Spanish.

In addition to providing online tools and resources via www.practical-money-skills.com, Visa has created free classroom material that high school educators can use to teach personal finance. Available online or in a binder format are teacher's guides, student worksheets and quizzes and interactive brain-teasers that can be played by students via the Web or from a CD-ROM.

New for this fall, Visa has also created with the National Orientation Directors Association and the Association of Student Financial Aid Administrators an educational program for college campuses. Geared to encourage peer learning, college students teaching other students, the new Practical Money Skills college presentation and student work book will be offered free to every university in the United States. Visa is hopeful that universities, students, and its member financial institutions will answer the call to increase financial literacy on college campuses by teaching this program to students.

Visa U.S.A. continues its efforts to bridge the digital divide by donating computer equipment to schools in need and providing training for teachers to ensure that schools have access to the equipment needed to take advantage of Practical Money Skills for Life. Visa U.S.A. expects to continue this program by donating computer labs to 10 high schools across the United States every year. To date, Visa has donated more than 45 computer labs nationwide.

Practical Money Skills for Life is educator-developed and educator-approved. In fact, at the recent National Education Association's Expo 2001, more than 94 percent of the educators surveyed graded the program an "A" or "B" and 98 percent said they would recommend the program to a fellow educator.

Visa's commitment to financial literacy extends beyond the fact that it is good for business, we also believe it is the right thing to do. Our youth are graduating today without the vital life skills necessary to ensure a successful life—like how to setup a budget and how to save for the future. It is critical that children learn these important financial facts of life before leaving home. Money skills are learnings a student can take from the classroom to the boardroom.

Visa thanks the Banking Committee for the opportunity to submit comments and we look forward to working with Members of the Committee and staff on this important topic.

U.S. PUBLIC INTEREST RESEARCH GROUP PRESS RELEASE

SEPTEMBER 5, 2002

Testimony at a Senate Banking Committee hearing today on aggressive credit card industry marketing to college students confirms the findings of reports by the State PIRG's that many college students, already at risk from massive student loan debts, have their problems worsened by deceptive credit card offers.

Recent PIRG surveys of campus credit card marketing have documented that students who apply for cards at campus tables, in return for candy, trinkets, or T-shirts, have more cards, higher balances, and worse over-the-limit and delinquency problems than other students.

"Too often debt burden becomes a ball and chain for student borrowers after graduation. Many student borrowers are taking on unmanageable levels of debt to finance a college education," said the State PIRGs' Higher Education Advocate, Ellynn Bannon. Bannon co-authored a March 2002 report on rising student loan debts, based on an analysis of the Department of Education data. That study, "The Burden of Borrowing," found the following:

- An estimated 39 percent of student borrowers now graduate with unmanageable levels of debt, meaning that their monthly payments are more than 8 percent of their monthly incomes. In 1999–2000, 64 percent of students graduated with student loan debt, and the average debt has nearly doubled over the last 8 years to \$16,928.
- Forty-one percent (41 percent) of all graduating seniors carried credit card balances averaging \$3,071. More of those students (48 percent) with student loans had credit card debts, which averaged \$3,176.

"Colleges need to take aggressive action to police the credit card industry, which has been under intensive regulatory and legal scrutiny for its marketing practices in general, but wants to pitch cards indiscriminately to students who may not have jobs or the ability to repay and who may already have serious student loan debt problems," said State PIRG Consumer Program Director Ed Mierzwinski. "Yet, even though the Congress has moved swiftly to take up the credit card industry's draconian bankruptcy bill, it has taken no action to rein in unfair credit card marketing practices."

The State PIRG's urged the Congress to do the following to stop unfair credit card practices:

- Pass the Dodd legislation, S. 891, to require that credit card companies either require the same terms of college students they require of everyone else—either ability to repay a card or a co-signer—or, at least, require proof that the student has passed a qualified debt education course.
- Pass the broader House proposals, H.R. 1052 and H.R. 1060, introduced by Rep. LaFalce (D-NY), to rein in unfair credit card practices.
- Reject the credit card company-driven bankruptcy conference report, which hurts victims of the recession without addressing any of these problems.

The PIRG's also recommended that campus administrations establish mandatory debt education programs, free from credit card company interference, and also ban or strictly regulate credit card marketing on campus. "Letting the credit card companies run your debt education program is like letting a tobacco company run your 'Stop Teen Smoking' campaign," Mierzwinski added.

"We commend Senator Sarbanes for holding this hearing," Mierzwinski concluded. "We hope to work with him to ensure that college students get a fair deal, not a raw deal, from unscrupulous credit card companies."

**U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
Hearing on "The Importance of Financial Literacy Among College Students"**

Comments for the Record
Submitted by Eric R. Weil, Managing Partner
Student Monitor LLC
550 N. Maple Ave., Ridgewood, New Jersey 07450
Monday, September 9, 2002

These comments have been prepared to provide those interested with key findings from the market research compiled and produced by our firm relevant to the subject of the Hearing.

Student Monitor LLC is a privately held, market research firm with specific expertise focusing on the U.S. college student population. Since 1987, the firm has collected, compiled and published our findings for the benefit of public, private and not-for-profit organizations seeking independent insight about the attitudes, perceptions and behavior of college students. In addition to a twice annual Lifestyle & Media Study, we also publish four, industry-specific studies each year (Automotive, Telecom, Computing & The Internet and Financial Services). These comments are drawn from Student Monitor's Spring 2002 Financial Services study.

The Financial Services study examines and quantifies student use of and attitudes about a range of student-relevant financial services products. The universe represented in this study is the population of full-time undergraduate students at four-year, U.S. colleges and universities (5.6 million students).

Methodology – The following findings are based on in-person, on campus interviews conducted from March 11th through March 22nd, 2002 among a total of 1,200 college students enrolled full-time at four-year colleges and universities throughout the nation. All interviewing was conducted in person, on campus, by professional survey researchers. Respondents were qualified as full-time undergraduates. The 1,200 student respondent base was comprised of equal numbers of students by gender and year in school.

In addition to gender and year in school, quotas were also established to yield a proportional representation based on the four U.S. census regions, nine census divisions, type of school (Public or Private), and enrollment. The number of completed interviews for the resulting cells are as follows:

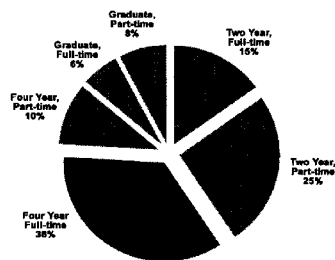
**Spring 2002 STUDENT MONITOR Financial Services Study
Completed Interviews by Region, School Type and School Size**

	Enroll Under 5,000	Enroll 5,000 to 9,999	Enroll 10,000 to 14,999	Enroll 15,000 or Greater	TOTAL
North	132	84	48	12	276
South	156	108	72	60	396
Midwest	96	72	36	120	324
West	60	48	48	48	204
TOTAL	444	312	204	240	1,200
Public	144	264	180	240	828
Private	300	48	24	0	372
TOTAL	444	312	204	240	1,200

Background & Demographics – In its broadest sense, the U.S. college student population enrolled in accredited programs leading to the award of at a minimum an Associate level degree totals nearly 16 million and is comprised of six student segments. Students are classified as enrolled either full-time or part-time. Additionally, these students are enrolled in two-year colleges, four-year colleges, or graduate schools.

A key distinction exists between the typical four-year, full-time undergraduate segment, (5.6 million students) and other college students. Specifically, the clear majority of students in two-year colleges as well as those in graduate schools are enrolled as part-time students and the primary reason these students attend school on a part-time basis is that they are employed on a full-time basis. Said differently, the “job” of the typical four-year full-time undergraduate is that of a student.

2002-2002 U.S. College Student Population
(15.6 million students)



The four-year full-time undergraduate college student is the focus of Student Monitor. To place the findings of the Spring 2002 Financial Services study in context, key demographics include:

- Average age of 20.7
- 42% live on campus, 36% off campus and 22% reside with their family
- 57% are employed during the school year, 83% are employed during the summer
- Students' annual personal earnings average \$5,100
- 59% receive money from home each month averaging \$246
- Average family household income of \$87,900

As an observation, while the focus of the hearing is “The Importance of Financial Literacy Among College Students”, it should be noted that these 5.6 million students represent about one-third (35%) of all 18-21 year olds in the U.S. The remaining two thirds are among the workforce, serve in the military, or are unemployed, institutionalized or incarcerated. Logically, the importance of financial literacy is of equal if not greater importance to our non-college student 18-21 year old population both in the near and long term.

- KEY FINDINGS -

Students Have High Levels of Ownership, Use and Experience With Financial Services Products

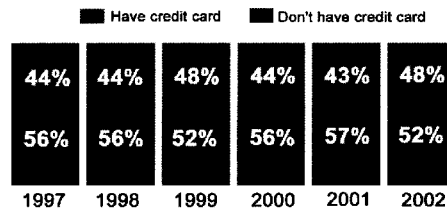
80% have a checking account in their own name compared to 65% with a saving account in their own name. Checking account balances average \$583 while savings account balances average \$2,182.

75% of student checking accounts were opened before the start of the college freshman year (51% during high school or earlier). The decline in the number of checks student write each month is attributed in part to the growth in both ownership and use of ATM and debit cards. 62% of students have an ATM card and 55% a debit card.

Credit Cards – Nearly as many students don't have a credit card as those who do

Reflecting little change compared to 1997, this year 52% of students report having a major credit card in their own name (Visa, MasterCard, Discover or American Express). Among the 52% of those with a major credit card, 11% of these are co-signed.

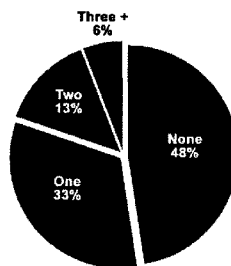
Credit Card Ownership Tracking



Most students with a major credit card have only one card

Contrary to a commonly held perception, the average student with a major credit card in his or her own name has only one card. Consistent with previous years' findings, (among all students with a major credit card in their own name) 63% have one card, 26% have two cards and 12% have three or more cards.

Number of Major Credit Cards Held by College Students



Students are acquiring a major credit card at an increasingly younger age

The share of students with a major credit card in their own name acquiring their card before starting college continues to increase. This year 48% of those with a major credit card in their own name acquired

their card before starting college (up from 41% last year and up from 34% two years ago). As additional support for this finding, 79% of college freshmen with a major credit card in their own name acquired their card before starting college compared to only 34% of college seniors.

The vast majority of students with a major credit card report using their card responsibly

Contrary to a commonly held belief that students sign up for a credit card in exchange for a t-shirt, water bottle or similar premium, when asked to identify the reasons students acquired a credit card, 69% say “to establish a credit history” (year after year, consistently the most frequently mentioned reason). 46% of students mention “convenience”, 30% for “emergency protection” and 25% “to be more financially responsible”.

These motivations are validated when examining how students manage the responsibility of a credit card.

- 90% of students are satisfied with their credit limit
- Nearly two-thirds pay their balance in full each month
- Among those with a balance, the balance averages 28% of their credit limit

Students With A Major Credit Card In Their Own Name

	Total	Fresh	Soph	Junior	Senior
Avg. Monthly Charge	\$133	\$117	\$126	\$142	\$138
Credit Limit	\$2,058	\$1,319	\$1,761	\$2,152	\$2,572
Percent Satisfied With Limit	90%	89%	90%	89%	90%
Percent Pay in Full	61%	70%	66%	52%	59%
Percent Carry Balance	39%	30%	34%	48%	41%
Avg. Balance	\$576	\$336	\$561	\$480	\$740

49% of students say they were “very prepared” and another 36% say they were “somewhat prepared” for the responsibility of owning a credit card. 8% report being “not very prepared” and 7% “not at all prepared”.

- 87% say it is their responsibility to keep track of how much they spend
- 84% say they are responsible enough to have a credit card
- 77% say their parents believe they can handle the responsibility of their own card
- 70% say their parents did not discourage them from acquiring their own card
- 68% say their parents think credit cards are a good way to establish a credit history
- 64% say their parents taught them how to use credit responsibly
- 46% say they are managing their credit card more responsibly than their parents expected

While the clear majority of students believe they and their family have the primary responsibility to educate themselves about credit, nearly half of students report receiving “Enough” credit education from their credit card company

When students are asked to identify who has the primary responsibility to provide them with credit education, the most common response is “my parents or family” (41%) and “myself” (27%). Only one in five students (22%) believe “my credit card company” has the primary responsibility. 3% mention their

college or university (74% of students believe their college or university does not provide them with resources to use credit responsibly).

Analyzing student responses to this question by class year, among older students (those with presumably more experience with their credit card) a decrease is seen among those identifying “my parents or family”, an increase in among those identifying “myself”, and an increase among those identifying “my credit card company”.

Additionally, the responses to this question among only those students with a major credit card in their own name reveal 68% identify their friends, family or themselves as having the primary responsibility for credit education.

**Who Has Primary Responsibility
To Provide Students With Credit Education?**

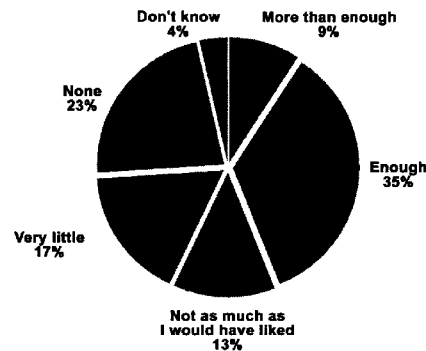
	Total %	Fresh %	Senior %	Have Major Card %
My friends or family	41	48	38	38
Myself	27	23	30	31
My credit card company	22	18	24	23
My college or university	3	3	2	2
Other	3	4	3	3
Don't know	3	3	3	2

When asked to describe the amount of credit education students received from the issuer of their credit card, less than half of students (44%) replied that had received either “more than enough” or “enough”. The majority of students (53%) stated “not as much as I would have liked”, “very little”, or “none”.

Examining these responses by individual brand of credit card yields nearly identical results. Additionally, analyzing responses by class year reveals that 56% of freshmen (those likely to have less experience with their credit card) reported receiving “enough” credit information. On the other hand, that number drops to 38% among seniors (those likely to have more experience with their credit card).

Since credit card companies and card issuers have and continue to provide credit education material in a variety of distribution channels and formats, apparently the perception of students is otherwise.

Credit Education Received From Card Issuer



Student Debt Is Overwhelmingly Student Loan Debt, Not Credit Card Debt

48% of all students (and 51% of those with a major credit card) have a student loan. These students expect to owe an average of \$18,560 when they graduate or \$50 billion in total (somewhat less though among those with a major credit card). These loans are payable to banks, government student loan programs, relatives, friends and all other sources. These students believe it will require an average of 7.1 years to re-pay their student loan, also representing a period of time consistent with the findings of previous years' studies.

Defining student debt as the sum of student loan debt (\$50 billion) taken together with student credit card debt (\$.7 billion), total student debt is \$50.7 billion.

Concern about student debt clearly requires an examination of the amount of student loan debt. As tuition increases continue to be passed along to students at levels several times greater than the rate of inflation, it is unlikely to believe the amount of student loan debt will do anything other than increase.

Student Debt